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INTERFOR

INTERFOR PACIFIC

Annual Statutory Information
for
2004

Includes:

- Message to Shareholders
- Management Discussion and Analysis Dated March 21, 2005
- Consolidated Financial Statements
- Annual Information Form Dated March 21, 2005

International Forest Products Limited

CERTIFIED SUSTAINABLE®

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INTERFOR

International Forest Products Limited

HIGHLIGHTS

(in millions of dollars, except share and per share amounts)

	2004	2003	2002
Financial Summary			
Sales	833.5	639.6	814.8
EBITDA (note)	109.5	4.6	120.7
Net earnings (loss)	24.7	(22.7)	39.6
Per Share Data			
Net earnings (loss) per common share			
- basic	0.51	(0.58)	1.10
- diluted	0.50	(0.58)	1.10
Price range per share			
$ High	8.65	7.90	5.85
$ Low	5.44	4.31	3.66
Book value per share	7.66	7.18	8.36
Cash Flow per share before working Capital Change	1.36	(0.12)	3.01
Weighted average shares outstanding (millions)	48.4	39.5	35.9
Financial Position			
Total assets	566.6	466.8	537.3
Total debt	74.2	13.0	50.0
Total shareholders' equity	372.7	347.2	297.2
Invested capital	446.9	360.2	347.2
Financial Ratios (%)			
Return on average shareholders' equity	6.9 %	(7.0) %	14.2 %
Return on average invested capital	6.8 %	(5.8) %	11.8 %
Total debt as a % of invested capital	13.0 %	3.6 %	14.4 %

Note: See the definition of EBITDA under the heading Review of Operating results on page 10.

> ***"Interfor emerged from 2004 as a different company than it was at the start of the year. The Company's geographic and manufacturing base has expanded and is more diversified, and the Company has sharpened its operational focus."***
>
> ***Message to Shareholders – March 2004***

For further highlights, please See Message to Shareholders on the next page.

INTERFOR

International Forest Products Limited

MESSAGE TO SHAREHOLDERS

OVERVIEW

Interfor made significant progress in 2004 towards our goal of positioning the Company to deliver sustainable, long-term results.

Highlights during the year included:

- Earned \$24.7 million after tax
- Acquired three sawmills in the U.S. Pacific Northwest for US\$73.3 million
- Commenced \$25-million re-build of Western Whitewood
- Received \$31.8 million from the sale of surplus properties
- Maintained strong balance sheet
- Operations reorganized to improve focus and reduce costs
- Began to implement new coastal labour agreement

Interfor emerged from 2004 as a different company than it was at the start of the year. The Company's geographic and manufacturing base has expanded and is more diversified, and the Company has sharpened its operational focus.

During the year, we also continued to re-evaluate each of our operations – but with tougher criteria in the face of a stronger Canadian dollar – to ensure they are capable of competing successfully in the global marketplace. Some of the changes resulting from this review have already been implemented and there are more to come. A deadline of July 2005 has been set to determine the future direction of each of the Company's operations.

FINANCIAL RESULTS BETTER THAN 2003

Interfor had positive results during the year despite the rising Canadian dollar (which rose from US\$0.77 at the end of 2003 to US\$0.81 at year-end), ongoing softwood duties and variable market conditions.

The Company's results were largely attributable to strong performances by our Adams Lake operation in the B.C. Interior and our new U.S. operations in Washington and Oregon. Gains made through the sale of surplus properties and the break fee received from the termination of our bid to acquire Riverside Forest Products Limited added to our net income for the year.

The results posted by the Company's coastal operations were better than those achieved in 2003. However, like other companies operating on the Coast, Interfor's coastal business continues to face significant challenges which constrained the results achieved by these operations.

For the year, lumber production was 901 million board feet compared to 637 million board feet in 2003, and sales revenue increased to \$833.5 million from \$639.6 million last year.

In the end, Interfor recorded net earnings of \$24.7 million or \$0.51 per share in 2004 compared to a net loss of \$23.0 million or \$0.58 per share in 2003.

Interfor's balance sheet continues to be one of the strongest in the sector. At year-end, net debt was \$55.9 million, or the equivalent of 13% of invested capital. This compares to a ratio of net debt to invested capital of 4% at the end of last year, prior to the Crown Pacific acquisition.

EBITDA from continuing operations in 2004 was \$87.8 million compared to \$4.4 million in 2003.

SOFTWOOD DISPUTE CONTINUES TO IMPACT RESULTS

Interfor's positive results were achieved in spite of the impact of the ongoing softwood lumber dispute with the U.S.

The Company paid $37.5 million in duty deposits in 2004 and, by year-end, had paid a total of $80.3 million since the deposit requirement came into effect in May 2002.

This dispute is having a disproportionate impact on B.C. Coastal operations due to the high value of the products produced in that region.

We continue to reject the notion that the industry is subsidized and the legal challenges have consistently supported our position.

Unfortunately, the U.S. industry and government continue to take steps to prolong the process – most recently with an Extraordinary Circumstances Challenge to NAFTA regarding the propriety of the rulings associated with the International Trade Commission injury case.

At the end of the day, we believe the Canadian industry will prevail in the legal challenge. That said, we also believe a durable long-term solution is unlikely via the legal process and continue to support the concept of a negotiated settlement to this long-standing dispute, and the creation of a continental North American market for lumber.

CROWN PACIFIC ACQUISITION PROVIDES STRATEGIC DIVERSIFICATION

From our standpoint, one of the key developments of 2004 was the acquisition of the sawmill assets of Crown Pacific Limited Partners. In the transaction, Interfor acquired three mills – one in Gilchrist Oregon, and two in Washington at Port Angeles and Marysville – for US$73.3 million including working capital.

The acquisition was finalized on September 1st and the transition of the mills into Interfor has been smooth.

The mills are a very good fit for Interfor and are well-positioned relative to log supply in their respective areas of operation. They have already made a significant contribution to our financial results.

Late last year, we established a regional office in Bellingham under the name of Interfor Pacific, the U.S. division of Interfor.

The acquisition of the three mills was the first step in Interfor's plan to grow and diversify its presence in other jurisdictions. The Company now operates in the coastal and interior regions of B.C. and the U.S. Pacific Northwest. Expanding into the U.S. Pacific Northwest is attractive due its proximity, customer base and product lines. We are continuing to look for opportunities to grow the U.S. business.

We have identified a number of high-return projects that will further enhance the competitive position and profitability of our U.S. mills. In 2005, the Company plans to invest US$18.0 million in capital upgrades at the Interfor Pacific operations.

3W RE-BUILD KEY TO COASTAL REPOSITIONING

During 2004, Interfor announced a $25.0 million project to transform its Western Whitewood ("3W") sawmill into a state-of-the-art small log mill.

The project represents the first significant capital reinvestment in the coastal industry in many years and is consistent with Interfor's goal of having operations that perform in the top quartile of the industry. This is also consistent with the Company's plan to focus on operations that have the ability or potential to generate acceptable returns.

The rebuilt operation is scheduled to be in the start-up phase in early April and expected to achieve pro forma production levels by the 3rd Quarter of 2005.

During the year, the Company proceeded with the permanent closure of its sawmill operation in Squamish, B.C. The closure was announced in August 2004 when it was determined that the mill did not have the ability to generate acceptable returns or operate on a competitive basis going forward. Prior to making the decision, we looked at a variety of options for the mill including the possibility of a complete re-build but came to the conclusion that it could not be justified.

In 2004, the Company directed a total of $18.0 million in discretionary capital to high-return projects. In addition to the 3W rebuild, projects included a new edger at the MacKenzie sawmill in Surrey, B.C. and an upgraded optimization system at Hammond Cedar in Maple Ridge, B.C.

In total, capital spending during 2004 was $57.6 million compared to $39.9 million in 2003.

Our current plan is to spend $20.3 million on discretionary capital in our B.C. operations in 2005, of which $14.3 million pertains to the final stages of the 3W rebuild.

OPERATIONS REORGANIZED TO IMPROVE FOCUS AND REDUCE COSTS

As part of our repositioning initiatives, steps were taken in December to reorganize our whitewood operations under the direction of Sandy Fulton, who joined Interfor at the time of the Crown Pacific purchase.

The combination of the Company's U.S. operations with the Adams Lake, 3W, Acorn and Mackenzie mills – and their respective marketing activities – will enable Interfor to provide a common face to customers in the North American market and ensure the greatest level of integration possible between our North American and offshore programs.

As we write this message in mid-March, we can report that good progress has already been made under this initiative and we are beginning to see encouraging signs and improved results in a number of areas.

Sandy Fulton has senior level experience in B.C. and the U.S. Pacific Northwest and will provide strong leadership to this area of the Company's operations. We are delighted he has joined the Interfor team and we are looking for him to make a significant contribution to our success in the years ahead.

Earlier in the year, we also began to restructure our coastal woodlands business to address competitiveness issues and to prepare for the results of the B.C. Government's 20% tenure take back.

By year-end, we had contracted out one woodlands operation and reduced the number of Company logging divisions from five to three. We intend to further this restructuring process in 2005. We are looking at additional consolidation of operations and administration functions to increase efficiency and reduce costs.

SALE OF SURPLUS PROPERTIES GENERATES CASH

Interfor generated $31.8 million through the sale of four surplus properties in B.C., including two phases of the Sawyer's Landing property in Pitt Meadows (former site of Bay Lumber), the former McDonald Cedar mill property in Fort Langley and a significant portion of the former Fraser Mills property in Coquitlam.

The sales are consistent with the Company's plan to generate cash from surplus assets.

Interfor is currently working on transactions for our remaining surplus properties, which are expected to generate a further $20 million. Sales of these properties are expected later this year or early in 2006.

GOVERNMENT POLICY CHANGES ENCOURAGE CONFIDENCE

As we moved into 2004, the B.C. Government was beginning to implement policy changes designed to create a more competitive, market-driven base for the province's forest industry.

In March, the government introduced a new market-based stumpage system for the coastal region that ties stumpage rates directly to the prices bid in the province's timber sales program.

The new system led to a reduction in stumpage rates which, in turn, led to an increase in harvest and employment rates on the Coast.

The government also announced its intention to take back 20% of the tenure held by major forest licences effective December 2005. The recovered tenure is to be re-allocated to First Nations, communities and the provincial timber sales program to encourage local participation in the industry and to enhance market conditions for timber pricing.

At the end of 2004, Interfor was in discussions with the province regarding compensation for the Company's share of the take back. We expect to conclude these discussions in the first half of 2005.

Interfor supports the policy reforms and believes they will result in a more dynamic market environment on Coast going forward.

NEW LABOUR AGREEMENT STEP IN RIGHT DIRECTION

Following the breakdown of negotiations and a four-week strike by the IWA in late 2003, the B.C. Government put in place a binding mediation/arbitration process under the direction of mediator Don Munroe.

In May 2004, Munroe implemented a new Coast Master Agreement covering most unionized forestry workers in the coastal region.

The contract included some elements that begin to address cost and competitiveness issues that have been plaguing the coastal industry and driving employment levels to record lows.

The new agreement allows operating rates and shifting arrangements that are more consistent with producers in competing jurisdictions. It also eliminates some of the costs that are no longer acceptable in a global industry, such as pay for hours not worked and weekend shift premiums.

There is still a long way to go but the new arrangements have helped to increase operating rates and employment levels in the both the woodlands and manufacturing sectors.

Moving in this direction will encourage re-investment, like the rebuild at 3W, and will ultimately lead to more stable and secure jobs for our employees.

During the year, Interfor was also successful in restructuring the labour agreement at its Albion, B.C. remanufacturing plant. The new agreement has resulted in reduced costs, allowing the operation to continue running on a competitive basis.

OUTLOOK

The North American market began 2005 in a very strong position with housing starts and consumption levels in the U.S. at exceptional levels, and prices well-above normal for this time of year.

That said, we expect the market to fall off in the second half of the year as rising interest rates begin to impact consumer confidence.

In Japan, the market for North American products continues to be impacted by increased supply from Europe and Scandinavia, and now from Russia.

Interfor will continue to address these issues in 2005 by maintaining focus on our restructuring efforts. This includes: determining which assets remain in the Company's portfolio based on their ability or potential to be truly competitive; continuing to streamline overhead costs and administration functions; continuing to upgrade assets where there is a strong business case; and pursuing growth opportunities to further build and diversify the Company.

Overall, our goal is to position Interfor as one of the world's pre-eminent wood products companies and, in doing so, to generate returns commensurate with the level of capital invested in the business. We made good progress in 2004; we intend to accelerate the process in 2005.

Thank you for your continued support.

W. L. Sauder

William L. Sauder
Chairman

Duncan K. Davies
President & C.E.O.

INTERFOR

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of March 21, 2005

This Management Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for 2004 relative to 2003, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and the Consolidated Financial Statements for the years ended December 31, 2004 and 2003 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A reference is made to EBITDA and EBITDA from Continuing Operations. EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of plant and equipment. EBITDA from Continuing Operations represents EBITDA less other income. The Company discloses EBITDA measures as they are used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

FORWARD LOOKING STATEMENTS

This report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein (see "Risks and Uncertainties" below).

REVIEW OF OPERATING RESULTS

General Overview

Strong performance from the Adams Lake operation in the Interior of B.C., significant improvements in Interfor's Coastal business and the acquisition of three sawmills in the U.S. Pacific Northwest (see "Acquisition of Crown Pacific Sawmill Assets" below) contributed to the Company's improved results in 2004. Strong markets in new housing and repair and remodeling resulted in high structural lumber prices in North American markets. In particular, increased production and sales volumes and the introduction of market-based timber pricing on the Coast had material impacts on the year's results. In addition, the Company recorded other income of $21.5 million in 2004 from the sale of surplus assets and a break fee (see "Disposals of Surplus Properties" and "Termination of Bid to Acquire Riverside Forest Products Limited" below).

In 2004, the Company continued its program of rationalizing operations in anticipation of the imminent timber tenure reductions and to maintain a competitive cost structure. Restructuring costs and plant and equipment write-downs resulting from these activities totaled $26.0 million in 2004 (see "Restructuring Costs and write-downs of plant and equipment" below).

Interfor recorded net earnings of $24.7 million ($0.51 per share) in 2004 compared to a net loss of $22.7 million ($0.58 per share) in 2003. EBITDA from Continuing Operations was $88.0 million (2003 - $1.3 million). Before restructuring costs, plant and equipment write-downs and profits from other income, net earnings for 2004 were $22.3 million ($0.46 per share) compared to a net loss of $22.8 million ($0.58 per share) in 2003. The 2004 results are net of $37.5 million pre-tax (2003 - $31.0 million) or $0.49 per share after tax (2003 - $0.50 per share) in countervailing and antidumping duties imposed by the U.S. Department of Commerce on the value of shipments of softwood lumber to the U.S. (see "U.S. Softwood Lumber Duty Action" below).

Interfor generated strong positive net cash flow from operations (after changes in working capital) of $71.2 million in 2004 (2003 - $1.1 million), and spent $57.6 million on capital projects (2003 - $39.9 million). The Company spent $99.0 million including working capital on the acquisition referred to above.

Interfor incurred U.S. dollar denominated long-term debt of US$66.7 million (CAD$87.6 million) in 2004 related to the acquisition, and subsequently repaid US$5.0 million (CAD$6.0 million). At December 31, 2004, a revaluation of the long-term debt to year-end exchange rates resulted in a further decline of CAD$7.4 million in value of the long-term debt to CAD$74.2 million. At the end of 2004, total debt net of cash balances ("Net Debt") was $55.9 million, or 13.0% of invested capital. The Company's strong balance sheet provides Interfor with significant protection against uncertainty, and with an excellent foundation to pursue strategic opportunities. At December 31, 2004 Interfor had unused available lines of credit, including accounts receivable securitization, of more than $132 million.

Selected Annual Financial Information

	2004	2003	2002	2001	2000
	(millions of dollars except per share amounts)				
Sales	833.5	639.6	814.8	719.0	750.3
Operating earnings (loss)	(2.2)	(45.6)	59.1	(37.5)	54.3
EBITDA[2]	109.5	4.6	120.7	45.3	108.9
EBITDA from Continuing Operations[2]	88.0	1.3	119.3	45.1	108.1
Net earnings (loss)	24.7	(22.7)	39.6	(25.3)	30.9
Net earnings (loss) per share - basic	0.51	(0.58)	1.10	(0.73)	0.91
Net earnings (loss) per share - diluted	0.50	(0.58)	1.10	(0.73)	0.91
Cash flow from operations[1] per share	1.36	(0.12)	3.01	0.72	3.13

1 See Glossary on page 66 of the Company's Annual Statutory Information for definition

2 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of plant and equipment. EBITDA from Continuing Operations represents EBITDA less other income. The Company discloses EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. EBITDA and EBITDA from Continuing Operations can be calculated from the statement of operations as follows:

	2004	2003	2002	2001	2000
Net earnings (loss)	24.7	(22.7)	39.6	(25.3)	30.9
Add: Income taxes (recovery)	0.4	(15.7)	21.3	(15.6)	23.7
Interest expense	3.2	3.7	3.6	5.5	3.0
Depletion and amortization	55.2	36.1	53.7	48.9	54.9
Restructuring costs, asset write-downs and other	26.0	3.2	2.5	31.8	(3.6)
EBITDA	109.5	4.6	120.7	45.3	108.9
Deduct: Other income	21.5	3.3	1.4	0.2	0.8
EBITDA from Continuing Operations	88.0	1.3	119.3	45.1	108.1

Volume and Price Statistics

		2004	2003	2002	2001	2000
Lumber sales	(MMfbm)	894	632	760	674	621
Lumber production	(MMfbm)[1]	918	644	783	666	632
Log sales	(thousand cubic metres)	1,497	1,125	1,375	1,581	1,803
Log production	(thousand cubic metres)	2,964	1,965	2,911	2,760	3,407
Average lumber selling price	($/Mfbm)[2]	$630	$662	$733	$732	$795

1 Includes lumber produced on a custom cutting basis for customers who have previously purchased the logs, in most cases from Interfor.

2 $ Canadian, FOB British Columbia or U.S. Pacific Northwest, net of countervailing duty and antidumping duty.

Acquisition of Crown Pacific Sawmill Assets

On September 1, 2004 Interfor completed the acquisition of the sawmill assets (the "Interfor Pacific Mills") of Crown Pacific Limited Partnership and its affiliates ("Crown Pacific") for $99.0 million including working capital. $41.6 million was funded through the Company's existing Revolving Line, $46.0 million through a new Non-Revolving Line, and the balance of $11.4 million through the Operating Line. The Non-Revolving Line was established to provide financing for the acquisition. The three acquired sawmills have an annual lumber capacity of 310 million board feet and add an attractive element of geographic and product diversification. The three sawmills are being operated under the name Interfor Pacific Inc., under the direction of Sandy Fulton, who joined Interfor as Senior Vice President, U.S. Operations on the date of the acquisition.

Disposals of Surplus Properties

During 2004, the Company sold four surplus properties located in British Columbia, including two of four phases of the Sawyer's Landing property in Pitt Meadows (former location of its Bay Lumber mill), its former McDonald Cedar mill property in Fort Langley, and a significant component of its former Fraser Mills property in Coquitlam. The Company received net proceeds of $31.8 million and recorded a gain of $13.7 million.

Termination of Bid to Acquire Riverside Forest Products Limited

On October 4, 2004, Interfor announced that it had reached an agreement to acquire the outstanding shares of Riverside Forest Products Limited ("Riverside"), subject to regulatory and contractual conditions.

On October 22, 2004, the Company announced the termination of the agreement in response to a superior offer from another company. Under the terms of the agreement with Riverside, Interfor received a break fee of $11.0 million, which was included (net of expenses) in the Company's accounts in the 4th Quarter.

U.S. Softwood Lumber Duty Action

On March 21, 2002 and further adjusted on April 25, 2002, the U.S. Department of Commerce ("USDOC") issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79%. The USDOC's final determination in the antidumping investigation resulted in Company-specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies including Interfor.

On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from May 22, 2002, cash deposits were required for shipments at the rates determined by the USDOC. All prior bonds or cash deposits posted prior to May 22, 2002 and since inception of this dispute on April 2, 2001 were refunded.

Effective December 20, 2004, the USDOC implemented new deposit rates based on the USDOC's final rate determinations for the first Administrative review period (May 22, 2002 to March 31, 2003 for the countervailing duty case; and May 22, 2002 to April 30, 2003 for the anti-dumping duty case). The USDOC reduced the countervailing duty deposit rate to 17.18% from 18.79% and reduced the all others anti-dumping deposit rate to 4.03% from 8.43%. These rates were subsequently amended by the USDOC on January 24, 2005 (anti-dumping deposit rate was reduced to 3.78%) and February 24, 2005 (countervailing duty deposit rate was reduced to 16.37%). At the date of this report the Company's combined deposit rate is 20.15%.

The Company has expensed $37.5 million (2003 - $31.0 million) in duties for the year ended December 31, 2004 representing the combined final countervailing and antidumping duties of 27.22% for the period from January 1, 2003 to December 20, 2004 and 21.21% from December 20, 2004. The Company has paid US$66.8 million (2003 - US$49.0 million) in cash deposits since May 22, 2002. These total U.S. deposits translated at the year-end exchange rate equate to $80.3 million at December 31, 2004.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments (collectively, "Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, NAFTA panels and the WTO.

NAFTA and WTO panels have issued several rulings with respect to the countervailing and anti-dumping investigations. The USDOC has responded to these rulings and modified its methodology and calculations in evaluating and calculating subsidy and dumping rates. However, primarily in the countervailing case, with each response to NAFTA panel rulings, the USDOC's methodology changes have resulted in substantive changes to the duty rates, both up and down, making it difficult to accurately estimate the final rates after all appeals will be complete. As a result, the Company has not recorded any receivable for prior periods related to the changes in the cash deposit rate applicable to new shipments.

A NAFTA Panel, in reviewing the "threat of injury" determination made by the USITC, has ruled that the USITC has not been able to provide the NAFTA Panel with substantive evidence to support the USITC ruling of "threat of injury". The NAFTA Panel requested that the USITC reverse its ruling on "threat of injury" with which the USITC reluctantly complied. U.S. industry and trade groups are appealing this ruling to an Extraordinary Challenge ("EC") Panel. If the EC Panel upholds this finding by the NAFTA Panel, Canadian Interests anticipate that all prior duties paid will be refunded with interest. However, there can be no certainty that the USDOC will

comply with this ruling and U.S. industry and trade groups have indicated that they may even challenge the constitutional validity of NAFTA in U.S. courts.

The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels. Notwithstanding the final rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete, including appeals.

B.C. Forest Revitalization Plan

In March 2003, the Government of British Columbia (the "Crown") introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure and timber licences to the Crown. The Plan states that approximately half of this volume will be redistributed to open opportunities for woodlots, community forests, and First Nations, and the other half will be available for public auction under the Timber Sales Program. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs.

In December 2004, the Crown issued Ministerial Orders to the Company specifying the timing and the volume of the take-back for replaceable tenures. Approximately 344,000 cubic metres of the Company's existing allowable annual cut on their replaceable tenures was taken in December 2004, and the balance of 235,000 cubic metres will be taken by December 31, 2005, for a total of 579,000 cubic metres. In addition, 20% of Interfor's non-replaceable timber licences will also be reduced. Discussions continue to determine the specifics of the timber licence takings. The Company is currently in negotiation with the Crown for compensation for timber volumes taken and related infrastructure. Interfor believes it is entitled to this compensation under the terms of the *Forest Revitalization Act*, but the amount and timing of any compensation is not yet determinable. The Company will record the compensation at the time the amounts to be recorded can be estimated.

Market Pricing System for Timber

On January 16th, 2004, the B.C. Provincial Government announced that it was implementing the new Market Pricing System ("MPS") for stumpage on the Coast to be effective on February 29th, 2004. MPS replaced the previous Comparative Value Pricing system, which was essentially a revenue-based system that had little sensitivity to changing log markets and fundamentally "waterbedded" stumpage between the major Licence holders both on the Coast and separately in the Interior. The primary variable in MPS is log pricing. MPS is highly sensitive to three month changes in log prices on the Vancouver Log Market. MPS is a market driven stumpage system consistent with recent B.C. Provincial policy changes that focus on relying on market forces to drive business activity in the Coastal forest sector and on providing a platform for revitalization and rebuilding competitiveness on the Coast.

Restructuring Costs and Write-Downs of Plant and Equipment

In 2004, the Company continued its program of rationalizing operations in anticipation of the imminent timber tenure reductions and to maintain a competitive cost structure. After more than a year of curtailed operations due to poor economic conditions, the Company permanently closed its sawmill in Squamish, effective October 31, 2004. As a result of the closure of the Squamish mill, the Company recorded restructuring costs of $19.2 million including plant and equipment writedowns of $13.8 million and severance and other costs.

The Company also negotiated the termination of a replaceable logging contract and restructured the labour contract at the Albion remanufacturing facility, which together resulted in additional restructuring costs of $1.3 million. As a direct consequence of the timber take-back, the Company restructured its Empire and Hope logging divisions which resulted in significant reductions in staff levels and other writedowns in late 2004. The reductions in the timber supply, coupled with the continued strengthening of the Canadian dollar against the U.S. dollar, caused the Company to review its cost structure in the manufacturing divisions and rationalize its operations in manufacturing and marketing. As a result, the Company recorded further restructuring costs of $5.5 million for severance and other costs.

The Crown has established the B.C. Forestry Revitalization Trust to mitigate the costs of restructuring workers and contractors who are displaced by the reductions in harvesting rights taken under the Forestry Revitalization Act. The Company will pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any mitigation is not yet determinable.

Comparison With 2003

Interfor's sales revenues increased by $193.9 million, an increase of 30% from 2003 levels. Lumber sales revenue accounted for $147.5 million of the increase, primarily due to a 41% increase in lumber sales volumes compared to 2003. Unit lumber sales values dropped by 6%, however this reflected the addition of the Interfor Pacific Mills for the last four months of the year. The average sales price for the Company's B.C. mills in 2004 was approximately the same as in 2003. Log sales volumes were up by 33% with unit prices lower by 4%. Pulp chip revenues were up by 34% compared to 2003, reflecting the increased levels of lumber production in 2004.

Selling and administration costs increased in 2004 to $21.5 million (2003 - $ 18.8 million). Approximately one-third of the increase is related to the addition of the Interfor Pacific Mills. The remainder is accounted for by increased long-term incentive compensation expense of $1.8 million (2003 - $1.5 million) and higher charges for salaries and benefits and consulting costs.

The increase in production costs reflects the higher volumes of log and lumber production and sales. Unit cash manufacturing costs in the Company's sawmills decreased by 16% as low cash manufacturing costs in the Interfor Pacific Mills reduced the average for the Company and fixed costs in the B.C. operations were allocated over significantly higher production volumes than in 2003. Unit cash logging costs excluding stumpage charges on the B.C. Coast decreased by 11%, also primarily due to allocating fixed costs over higher volumes harvested. Stumpage charges on the B.C. Coast decreased by 30%, reflecting the change to the new stumpage system (see "Market Pricing System for Timber" above).

The Company expensed $37.5 million (2003 - $31.0 million) in duties for the year ended December 31, 2004 representing the combined final countervailing and antidumping duties of 27.22% for the period from January 1, 2003 to December 20, 2004 and 21.21% from December 20, 2004 (see "U.S. Softwood Lumber Duty Action" above). Lumber shipments to the U.S. which originated in Canada totaled 241 million board feet in 2004 compared to 180 million board feet in 2003.

Depletion and amortization costs in total increased by $19.2 million compared to 2003. Amortization of logging roads was higher by $15.1 million, of which $10.3 million reflected higher conventional logging production and $4.8 million reflected logging in areas with higher road building costs. Amortization of plant and equipment in Interfor's manufacturing plants was $4.1 million above 2003 levels, reflecting higher operating rates in the Company's sawmills and the addition of the Interfor Pacific Mills.

Restructuring costs and write-downs of plant and equipment totaled $26.0 million in 2004 (see "Restructuring Costs and Write-Downs of Plant and Equipment" above) compared to $3.2 million in 2003. Of this amount, $10.0 million was related to severance and other restructuring costs (2003 - $3.0 million) and $16.0 million was related to the write-down of plant and equipment (2003 - $3.2 million). In 2003, the Company also recorded a reversal of restructuring costs of $2.9 million.

Interest costs were lower in 2004 compared to 2003 as Interfor's average debt levels were down by $10.5 million. The Company's average direct borrowing rates experienced in 2004 were approximately equal to 2003.

Interfor recorded equity income of $8.9 million in 2004 compared to $7.6 million in 2003. The increase was attributable to higher earnings by Seaboard Shipping Company Limited ("Seaboard"), of which Interfor's share was $8.0 million (2003 - $6.7 million).

The Company recorded income tax expense of $0.4 million with an overall effective rate of 2% in 2004 compared to an income tax recovery of $15.7 million with an overall effective rate of 41% in 2003. The decrease in the effective income tax rate is mainly attributable to the non-taxable portion of proceeds recorded on the sale of surplus properties and the break fee received on the termination of the bid to acquire Riverside during the year.

During 2004, the CAD$ appreciated significantly against the US$. The CAD$ ranged from a high of $1.40 to a low of $1.18 (2003 - $1.57 to $1.29), with an average exchange rate for 2004 of $1.30 (2003 - $1.40). Assuming constant pricing, the negative impact of the stronger dollar on net earnings after tax, and before the positive impact of currency hedging, was $12.9 million (2003 - $16.8 million). Hedging programs offset the reduction in net earnings by $1.0 million (2003 - $6.7 million) resulting in a net impact on earnings of $11.9 million (2003 - $10.1 million).

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

	2004				2003			
	Quarters				Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(millions of dollars except per share amounts)							
Sales	170.2	211.6	239.0	212.7	186.2	168.1	149.9	135.4
Operating earnings (loss)	(2.1)	12.9	(7.7)	(5.3)	(9.4)	(20.8)	(3.2)	(12.2)
EBITDA[2]	12.9	31.7	31.2	33.7	4.7	(8.2)	7.1	0.9
EBITDA from Continuing Operations[2]	11.8	30.0	31.2	15.0	2.2	(9.1)	7.1	1.1
Net earnings (loss)	0.9	11.6	(3.1)	15.2	(2.4)	(12.0)	(1.4)	(6.9)
Net earnings (loss) per share - basic and diluted	0.02	0.24	(0.06)	0.31	(0.07)	(0.34)	(0.04)	(0.14)
Cash flow from operations[1] per share	0.20	0.54	0.44	0.19	0.03	(0.34)	0.10	0.05

1 See Glossary on page 66 of the Company's Annual Statutory Information for definition

2 EBITDA and EBITDA from Continuing Operations (see description above under Selected Annual Financial Information). EBITDA and EBITDA from Continuing Operations can be calculated from the statement of operations as follows:

	2004 1st	2004 2nd	2004 3rd	2004 4th	2003 1st	2003 2nd	2003 3rd	2003 4th
Net earnings (loss)	0.9	11.6	(3.1)	15.2	(2.4)	(12.0)	(1.4)	(6.9)
Add: Income taxes (recovery)	(0.3)	4.6	(2.5)	(1.4)	(3.4)	(7.4)	(1.2)	(3.8)
Interest expense	0.5	0.4	1.0	1.3	1.0	1.2	1.1	0.4
Depletion and amortization	11.2	15.1	15.7	13.3	9.5	8.3	8.6	9.7
Restructuring costs, asset write-downs and other	0.6	-	20.1	5.3	-	1.7	-	1.5
EBITDA	12.9	31.7	31.2	33.7	4.7	(8.2)	7.1	0.9
Deduct: Other income (loss)	1.1	1.7	-	18.7	2.5	0.9	-	(0.2)
EBITDA from Continuing Operations	11.8	30.0	31.2	15.0	2.2	(9.1)	7.1	1.1

Quarterly trends normally reflect seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall. The significant drop in sales revenues and net losses experienced in the last three quarters of 2003 was due to a combination of the U.S. duties on lumber, the rising value of the Canadian dollar versus the U.S. dollar and difficult conditions in the Japanese lumber market. During this period Interfor reduced operating rates in both woodlands and manufacturing divisions to bring production into line with market demand. The significant increase in earnings in the fourth quarter of 2004 was largely due to an increase in other income, consisting of gains on surplus property sales and a break fee earned on the attempted acquisition of Riverside.

4th Quarter Results

The Company recorded net earnings of \$15.2 million or \$0.31 per share in the 4th Quarter of 2004 compared to a net loss of \$3.1 million or \$0.06 per share in the immediately preceding quarter, and a net loss of \$6.9 million or \$0.14 per share in the 4th Quarter of 2003.

Interfor recorded net earnings of \$18.6 million or \$0.38 per share before restructuring costs in the 4th Quarter of 2004 compared to net earnings of \$9.8 million or \$0.20 per share, before restructuring costs in the immediately preceding quarter, and a net loss before restructuring costs of \$5.9 million or \$0.12 per share in the 4th Quarter of 2003.

The results for the quarter were primarily attributable to the gains on the sale of surplus property (\$11.4 million or \$0.23 per share) and to the break fee received on the termination of the agreement to acquire Riverside in October (\$7.0 million, net of expenses, \$0.19 per share). From an operating standpoint, the quarter was much more challenging than the previous two quarters as reduced activity in Japan, lower product prices and the rising value of the Canadian dollar combined to negatively impact the Company's results. In spite of the decline, the Company's Interior and U.S. Operations continued to generate attractive, albeit reduced, returns while the Coastal Operations made a negative contribution in the quarter.

Lumber shipments totaled 272 million board feet in the 4th Quarter compared to 238 million board feet in the preceding quarter, reflecting a full quarter of production for the Company's U.S. Operations which were acquired in September. Sales revenue, on the other hand, declined to $212.7 million from $239.0 million in the 3rd Quarter. EBITDA was $33.7 million compared to $31.2 million in the 3rd Quarter. In the 4th Quarter of 2003 EBITDA was $0.9 million.

During the 4th Quarter, Interfor paid $7.3 million ($4.6 million after tax or $0.10 per share) in deposits for countervailing and antidumping duties on shipments of 61 million board feet from Canada to the U.S. The amount of deposits paid in the 4th Quarter includes the impact of the decline in the combined duty rate to 21.21% from 27.22% resulting from the issuance of the final determination in the First Administration Review by the USDOC in mid-December 2004.

In the 4th Quarter Interfor continued its program of rationalizing operations in anticipation of the Province of B.C. timber tenure reductions and to reduce its ongoing cost structure. To reflect the costs associated with this initiative the Company recorded a restructuring provision of $5.3 million in the quarter.

During the 4th Quarter Interfor generated $9.1 million in cash from operations before changes in working capital, and $40.5 million after changes in working capital were considered, as curtailments in the Company's Coastal Operations designed to reduce inventories had the intended effect. The sale of surplus properties generated another $26.8 million in the 4th Quarter.

Capital spending in the 4th Quarter amounted to $20.0 million including $6.6 million on roads, $3.5 million on maintenance projects, $0.4 million on land development and $9.4 million on discretionary projects. The spending on discretionary projects includes approximately $6.0 million related to the rebuild of the Company's Western Whitewood ("3W") sawmill in New Westminster which was announced during the 3rd Quarter of the year. The 3W project is expected to be completed in April 2005.

All together, net debt was reduced by $50.2 million in the 4th Quarter to stand at $55.9 million.

CASH FLOWS

Cash generated by operations, before working capital changes, was $66.1 million for the year. Decreased investment in working capital of $5.1 million resulted in a total cash generation from operations of $71.2 million for the year.

Net cash applied to property, plant and equipment, timber and logging roads and investments totaled $121.3 million. The acquisition of the Interfor Pacific Mills including working capital and other assets accounted for $99.0 million of this total. The Company expended $28.9 million to construct roads and $28.7 million to improve plant and equipment. Plant and equipment expenditures included $10.7 million on the rebuild of the Westminster Whitewood sawmill. Approximately 40% of the remaining expenditures on plant and equipment were attributed to projects which are expected to have paybacks of less than two years and the balance was used to maintain the efficiency of the Company's operations and for development costs related to surplus land. Cash proceeds from the sale of surplus assets totaled $33.0 million in 2004.

Interfor increased term debt by $87.6 million in September 2004 to fund the acquisition of the Interfor Pacific Mills. The Company subsequently repaid $6.0 million of term debt after receiving the cash proceeds on the disposals of the McDonald Cedar and Fraser Mills properties in December 2004. At December 31, 2004, the debt, which is denominated in $U.S., was revalued to current foreign exchange rates, which resulted in a decline in value of $7.4 million to $74.2 million.

Including the financing for the Interfor Pacific Mills acquisition, Interfor's net debt increased to $55.9 million at December 31, 2004, representing a ratio of net debt to invested capital of 13.0% compared to 3.6% at the end of 2003.

Liquidity

The Company expects to fund its ongoing operations and normalized future capital expenditures for maintenance of equipment and road development through the cash generated from operations and through utilization of its existing bank facilities. This is based on maintenance of the Company's current operating capacity, and would exclude any additional requirements resulting from any major acquisitions which could occur in the future. (Refer also to comments under "General Overview" above and "Current Liabilities", "Long-Term Liabilities", and "Summary of Contractual Obligations" below.)

Summary of Issuance of Shares

The following table summarizes the major issuances of shares over a five year period, and excludes the issuance of shares on exercised employee options:

	2004	2003	2002	2001	2000
			(millions of dollars)		
Net proceeds from issuance of shares	0.0	72.2	0.0	15.8	0.0
Planned utilization of proceeds					
Acquisition of Primex Forest Products Ltd.	0.0	0.0	0.0	15.8	0.0
Repayment of bank indebtedness	0.0	72.2	0.0	0.0	0.0
	0.0	72.2	0.0	15.8	0.0
Actual utilization of proceeds					
Acquisition of Primex Forest Products Ltd.	0.0	0.0	0.0	15.8	0.0
Repayment of bank indebtedness	0.0	72.2	0.0	0.0	0.0
	0.0	72.2	0.0	15.8	0.0
Variance	0.0	0.0	0.0	0.0	0.0

FINANCIAL POSITION

Summary of Financial Position	2004	2003	2002	2001	2000
			(millions of dollars)		
Current assets	186.8	130.5	201.2	175.0	148.2
Current liabilities	86.4	82.6	126.4	115.3	103.6
Working capital	100.4	47.9	74.8	59.7	44.6
Total assets	566.6	466.8	537.3	526.1	413.4
Total long-term liabilities	107.5	37.0	113.6	151.2	40.8
Operating debt	0.0	13.0	0.0	1.6	3.9
Long-term debt	74.2	0.0	50.0	100.0	0.0
Total debt	74.2	13.0	50.0	101.6	3.9
Shareholders' equity	372.7	347.2	297.2	259.5	268.9
Invested capital	446.9	360.2	347.2	361.1	272.8
Ratio and Investment Information					
Current ratio	2.2	1.6	1.6	1.5	1.4
Total debt as a percentage of invested capital	13.0%	3.6%	14.4%	28.1%	1.4%
Return on average shareholders' equity[1]	6.9%	(7.0)%	14.2%	(9.6)%	11.9%
Return on average invested capital[1]	6.8%	(5.8)%	11.8%	(8.0)%	9.7%
Pre-tax return on total assets[1]	5.2%	(7.5)%	9.9%	(1.7)%	12.4%
Cash flow from operations[1] as a percentage of total debt	118.2%	(38.0)%	215.5%	24.6%	2,728.9%
Equity per share	$7.66	$7.18	$8.36	$7.24	$8.38
			(millions)		
Weighted average shares outstanding for the year	48.4	39.5	35.9	34.6	34.0
Number of shares outstanding at year end:					
Class A subordinate voting[2]	47.6	47.4	34.5	34.9	31.1
Class B common[2]	1.0	1.0	1.0	1.0	1.0
	48.6	48.4	35.5	35.9	32.1
Re-investment					
			(millions of dollars)		
Cash flow from operations[1]	66.1	(4.9)	107.8	25.0	106.5
Cash generated from (used in) operating working capital	5.1	6.0	(20.0)	36.1	19.1
Capital expenditures and acquisitions	(156.6)	(39.9)	(41.1)	(127.7)	(52.6)

1 See Glossary for definition
2 As at March 21, 2005 there were 47,656,276 Class A and 1,015,779 Class B shares outstanding

Current Assets

Accounts receivable levels at December 31, 2004 are significantly higher than 2003. The low level of receivables in 2003 reflects the IWA strike of November/December 2003 which lowered volumes of lumber, log and chip shipments. In addition to increased overall operating levels in the Company's B.C. operations, the addition of the Interfor Pacific Mills added $9.1 million to accounts receivable at December 31, 2004. As a result of the low level of accounts receivable at December 31, 2003, the Company's securitization program was reduced from $20.0 million to $10.0 million. Interfor increased the securitization program to $25.0 million as accounts receivable returned to normal levels over the first half of 2004. The maximum amount available under the accounts receivable securitization program is $30 million.

Interfor's inventory levels are up by $15.7 million from 2003, reflecting the increased level of both log and lumber production in 2004, the addition of the Interfor Pacific Mills and the IWA strike in 2003. The addition of the Interfor Pacific Mills added $4.5 million to year end lumber inventory and $2.4 million to log inventory. Lumber volumes in B.C. increased by 2%, and B.C. log inventory volumes were up by 5% compared to December 31, 2003. Unit values of lumber inventory in the B.C. operations were up 7% over 2003.

Current Liabilities

The Company has operating lines of credit of $75.0 million. Drawings under these lines are subject to a borrowing base calculation dependent upon accounts receivable, inventories and certain accounts payable. At December 31, 2004, due to seasonally lower levels of accounts receivable and inventory, the borrowing base available under the operating lines was $74.3 million. The Company had utilized $4.7 million including outstanding letters of credit at the end of 2004. The Company's working capital ratio was 2.2 to 1.

Accounts payable were unusually low in December 2003 due to decreased operating levels in both the Company's manufacturing plants and in woodlands operations. The IWA strike combined with poor lumber and log markets contributed to the decreased operating levels. At December 31, 2004, the addition of the Interfor Pacific Mills and severance provisions related to restructuring together accounted for $9.8 million of the increase in accounts payable.

Investments and Other Assets

The Company's investment in Seaboard totaled $36.0 million at December 31, 2004 (2003 - $31.5 million) as calculated under the equity method of accounting as described in note 5(a) to the consolidated financial statements. The increase in the investment is due to equity income earned during year of $8.0 million (2003 - $6.7 million) net of cash distributions received from Seaboard during 2004 of $3.5 million (2003 - $nil).

The Company's investment in Seaboard is subject to the risks and uncertainties affecting an international shipping company and include open market charter rates, foreign exchange rates, costs of fuel oil and interest rates.

Other investments include a 49% interest in a specialty lumber remanufacturer, at a carrying value of $8.7 million (2003 - $7.7 million), and various other long-term advances and minor investments. During the year, the Company recorded $1.0 million (2003 - $0.9 million) in equity earnings and received no (2003 - $nil) cash distributions from other investee companies.

Property, Plant and Equipment, Timber and Logging Roads

The net book value of the Company's property, plant and equipment, timber and logging roads increased by $36.7 million in 2004. Property, plant and equipment related to the Interfor Pacific Mills acquisition totaled $75.0 million. Investments in other property, plant and equipment, timber and logging roads approximately equaled charges for amortization and depletion. The net book value of assets disposed of in 2004 was $18.5 million, which was mostly related to land sales. Property, plant and equipment write-downs totaled $16.0 million, of which $13.8 million was attributable to the closure of the Squamish sawmill. Investments in property, plant and equipment included $6.5 million on maintenance of business projects, $18.1 million on high-return discretionary projects and $4.1 million on development costs related to surplus land. Spending on the rebuild of the 3W sawmill totaled $10.7 million in 2004. Expenditures on road construction totaled $28.9 million.

Long-Term Liabilities

The Company restructured its term financing on September 1, 2004 in order to facilitate the acquisition of the Interfor Pacific Mills. The Canadian revolving term line (the "Revolving Line") was increased to $90.0 million from $75.0 million and the maturity date was extended to April 27, 2007. On September 1, 2004, to fund the acquisition, the Company drew US$31.7 million (CAD$41.6 million) on this line and subsequently repaid US$5.0 million (CAD$6.0 million) on December 31, 2004. As at December 31, 2004, the Revolving Line was drawn by US$26.7 million and revalued at the month-end exchange rate to CAD$32.1 million (2003 - $nil). The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or Libor based loans.

A new US$ non-revolving term line (the "Non-Revolving Line") was established in the amount of US$35.0 million (CAD$46.0 million) with a maturity date of September 1, 2009. As at December 31, 2004, the line was fully drawn and revalued at the month-end exchange rate to CAD $42.1 million. The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Libor based loans.

Both lines are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. Total debt as a percentage of invested capital increased to 13.0% from 3.6% in 2003.

The reduction in other long-term liabilities was primarily due to lower forestry related liabilities. Total amounts accrued for pension liabilities and long-term incentive compensation programs were similar to the year prior.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which encompass accounts receivable securitization, letters of credit, and surety bonds. These are more fully described in Note 7(a), Note 11(d), Note 13(e) and Note 16(c) of Notes to Financial Statements. As at December 31, 2004, the total of such instruments aggregate $36 million, of which the accounts receivable securitization comprises $25 million. Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Summary of Contractual Obligations

The summary of payments due in respect of contractual and legal obligations are as follows:

		Payments due by period			
	Total	**Up to 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
			(millions of dollars)		
Reforestation liability	24.7	7.7	6.9	4.3	5.8
Long-term debt	74.2	-	32.1	42.1	-
Other long-term liabilities	20.1	10.6	6.4	1.0	2.1
Operating leases	33.0	10.2	9.3	8.7	4.8
Contractual commitments	13.8	13.8	-	-	-
Total contractual obligations	165.8	42.3	54.7	56.1	12.7

Related Party Transactions

Lumber sales to an affiliate of Mountclair Investment Corporation, which owns 99.6% of the issued Class B Common shares and 3.25% of the issued Class A Subordinate Voting shares, totaled $3.5 million in 2004 (2003 - $5.3 million). Lumber sales to an investee company totaled $1.7 million (2003 - $2.3 million). Lumber shipping services provided by an investee company, Seaboard, totaled $15.5 million (2002 - $19.3 million). These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

Critical Accounting Estimates

Valuation of Accounts Receivable. Interfor regularly reviews the collectibility of its accounts receivable and records an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expenses to be recorded. Although Interfor has not experienced any significant bad debts expenses in prior periods, declines in the economy could result in collectibility concerns. Accounts receivable balances for individual customers could potentially be material at any given time.

Valuation of Inventories. Interfor values its lumber inventories at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis. Other inventories consist primarily of supplies and are recorded at cost. Per unit net realizable value is determined by a reference to the average net sales by specific product in the periods immediately prior to the reporting date. Per unit cost for lumber is based on a three month moving average actual cost, lagged by one month, and for logs is based on a twelve month moving average actual cost, lagged by one month. Instances where net realizable value is lower than cost result in a charge to operating earnings in the period. Downward movements in commodity prices could result in a material write-down of inventory at any given time.

Recoverability of Property, Plant and Equipment, Timber and Logging Roads. Interfor's assessment of recoverability of property, plant and equipment, timber and logging roads is made with reference to projections of future cash flows to be generated by its operations. These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, duties and other factors. There is a high degree of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated cost of reforestation as the timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liability could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate any roads constructed and used to access timber once that access is no longer required. Accordingly, Interfor also accrues the cost of road deactivation as the related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liability could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Environmental Obligations. Environmental expenditures that relate to an existing condition caused by past operations are charged as current production costs once existence of a liability and costs of rehabilitation efforts can be reasonably determined. Interfor engages independent third party experts to assist in determining the existence of environmental liabilities, appropriate prescriptions for treatment and related costs. Estimates of environmental obligations could be materially impacted by a number of factors including incorrect or incomplete problem definition and identification of treatments, or inaccurate cost projections. Incorrect estimates could result in a material charge against operating earnings.

Pension Benefits. Interfor maintains a defined contribution plan available to all salaried employees and a defined benefit plan available to non-unionized hourly employees. The Company retains independent actuarial consultants to value its defined pension benefit obligations and plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and anticipated increases in compensation amounts used to estimate obligations. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Income Taxes. Interfor's provision for income taxes, both current and future, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for federal, provincial and foreign taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Future income tax assets and liabilities are comprised of temporary differences between the carrying amount and tax basis of assets and liabilities as well as tax loss carry forwards. Assumptions underlying the composition of tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Softwood Lumber Duties. Softwood lumber duties represent contingent liabilities requiring payment of cash deposits to U.S. Customs authorities in order to allow the Company to ship softwood lumber products into the U.S. Interfor has recorded the cash payments related to these lumber shipments as charge against operating earnings. Interfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments categorically deny U.S. allegations which result in the imposition of these countervailing and anti-dumping duties. Canadian Interests continue to pursue appeals of the final countervailing and anti-dumping determinations with the appropriate courts, NAFTA panels and the WTO. As such, the actual amount of duties for softwood lumber products shipped will depend upon the outcome of these various appeals or upon a negotiated settlement. In addition, the U.S. undertakes annual administrative reviews which could result in revisions to either duty rate. Any differences between the revised duty rates and the rates at which deposits were paid can result in a refund or charge to Interfor, plus interest. Actual duty amounts paid in the future relating to current lumber shipments could be materially different from the amounts paid and expensed, and could result in a charge against operating earnings. If any settlements of duty were to arise in the future, amounts to be refunded may be materially different from the amounts paid and expensed because of foreign currency fluctuations between the original payment date and the refund date as duty payments are denominated in U.S. currency.

NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES

Effective January 1, 2004, Interfor adopted a number of accounting policies and accounting policy changes resulting from various new Canadian Institute of Chartered Accountants ("CICA") Handbook recommendations and Accounting Guidelines.

Interfor retroactively adopted the CICA Handbook recommendation on asset retirement obligations, which, for the Company, encompasses primarily reforestation and road deactivation liabilities. Under this new section, asset retirement obligations are measured at fair value. As a result of adopting these new recommendations, Interfor's reforestation liability decreased by $4.9 million, long-term liabilities decreased by $0.5 million, the future income tax liability increased by $1.8 million and retained earnings increased by $3.6 million at December 31, 2003.

The Company adopted the new CICA Accounting Guideline on Hedging Relationships, which discusses the identification, designation, documentation and effectiveness of hedging relationships. The new requirements have been applied on a prospective basis to all instruments existing on, or entered into after January 1, 2004. Interfor believes that its use of derivative foreign currency forwards and options results in an economic hedge against fluctuations in foreign exchange rates related to future revenue. However, the Company has chosen to not designate its derivative forward foreign exchange contracts and options as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

Interfor also adopted the new CICA Handbook recommendation on the impairment of long-lived assets, which requires the Company to recognize an impairment loss when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows, expected to result from its use and eventual disposition. The impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. Prior standards required that the impairment loss be measured as the amount by which the long-lived asset's carrying amount exceeded its undiscounted cash flows. The adoption of the policy had no impact on Interfor's financial statements.

To meet the requirements of the new CICA Handbook recommendations for the application of GAAP, the Company reclassified its countervailing and anti-dumping duties and freight, wharfage and handling from sales to costs and expenses. Prior period amounts were restated to reflect these reclassifications.

RISKS AND UNCERTAINTIES

Pricing

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States and Japan), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products.

Based on 2004 levels of operations, a $10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	$10 increase per mfbm	$5.6 million increase in net income
Chips	$10 increase per volumetric unit	$3.3 million increase in net income

Competition

The markets for Interfor's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's production is directed to export markets, where Interfor competes on a worldwide basis against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than Interfor and some of its competitors are, in some product lines, lower cost producers than Interfor.

Factors which affect Interfor's competitive position include:

- the cost of labour;
- the quality of its products and customer service; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If Interfor is unable to successfully compete on a global basis, its financial condition could suffer.

Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company purchases in excess of 50% of its log requirements either through long-term trade and purchase agreements or on the open market. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

Use of Financial and Other Instruments

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts are the Company's bankers and, hence, the risk of credit loss on the instruments is mitigated.

Currency Exchange Sensitivity

Interfor's Canadian operations ordinarily sells approximately three-quarters of its lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount of Japanese Yen. While the Canadian operations also incur some US$ denominated expenses, primarily for countervailing and anti-dumping duties, ocean freight, and other transportation and equipment operating leases, the majority of its expenses are incurred in CAD$.

An increase in the value of the CAD$ relative to the US$ would reduce the amount of revenue in CAD$ realized by the Company from lumber sales made in US$. This would reduce the Company's operating margin and the cash flow available to fund operations. As a result, any such increase in the value of the CAD$ relative to the US$ could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company actively manages its currency exchange risk in fluctuations in US$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. At December 31, 2004 the Company had outstanding obligations to sell a maximum of US$17 million at an average rate of CAD$1.212 per US$1.00 and ¥240 million at an average rate of ¥85.87 per CAD$1.00, using a combination of forward and option contracts during 2005. All foreign currency gains or losses to December 31, 2004 have been recognized in the statement of operations.

Based on the Company's net exposure to foreign currencies in 2004, the sensitivity of Interfor's net earnings is as follows:

U.S. Dollar	$0.01 increase vs. CAD$	$2.0 million increase in net income
Japanese Yen	1¥ increase vs. CAD$	$0.1 million increase in net income

Interfor's U.S. operations produce and sell products exclusively for the U.S. market. All revenues and expenses are denominated in U.S. dollars. The purchase of the assets of the U.S. operations was primarily financed with US$ denominated debt. Self sustaining operations' assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Long-term obligations, used to finance the purchase of the U.S. operations, are designated as hedges of investments in those operations. Cumulative exchange gains or losses that arise from the revaluation of the self sustaining operations as well as cumulative unrealized gains or losses arising on translation of the long term obligations are recorded as cumulative translation adjustments, a separate component of shareholders' equity.

Cost of Debt Financing and Sensitivity

As at December 31, 2004 Interfor had drawn a total of $74.16 million of floating rate debt under its term and operating credit facilities.

The Company's operating and term debt facilities bear interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances for CAD$ loans or at Libor for US$ loans. The lines of credit are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

The Company had no interest rate swaps outstanding at December 31, 2004.

Based on the Company's average debt level during 2004, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.4 million to net earnings.

Sale of Receivables

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At December 31, 2004, the Company had received cash proceeds of $25.0 million. If this agreement were to terminate, the Company has sufficient capacity in its operating lines to finance these receivables.

U.S. Softwood Lumber Action

As a result of the complexity of the softwood lumber trade dispute, various legal and other appeals and challenges being pursued by the Canadian Interests and a coalition of U.S. lumber producers and calculations and determinations to be made by U.S. Trade Authorities, and in the absence of a negotiated settlement satisfactory to all stakeholders, neither the final liability of the Company for the assessment of countervailing and anti-dumping duties nor the date of such determination can be predicted at this time. In the interim, U.S. Trade Authorities are expected to continue to impose countervailing and anti-dumping duties on imports of Canadian softwood lumber.

The Company cannot predict the final outcome of the WTO and NAFTA panel processes or the final amount of the liability, if any, imposed on the Company. In addition, the Company cannot predict whether the Canadian and United States federal governments will ultimately come to a negotiated settlement of these issues in a timely manner, or at all. Until these disputes are settled, the Company continues to be subject to the duties imposed by the U.S. Trade Authorities (see "U.S. Softwood Lumber Duty Action" under "Review of Operating Results"). Until the final outcome of the WTO and NAFTA panel processes is known, or until a negotiated settlement is reached, actual duty amounts paid in the future relating to current lumber shipments could be materially different from the amounts paid and expensed. As Interfor records duty payments as a cost of operations, any increase in duty rates would result in an increase in costs and a charge against operating earnings.

Forest Policy Changes in British Columbia

The Crown has initiated a number of new changes to forest policy that will help make a more viable and competitive forest industry in B.C. Policy changes in progress include a results based Forest Practices Code; First Nation tenure opportunities and revenue sharing; market based timber pricing; the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. The Crown has also announced a B.C. Forest Revitalization Plan that involves a reallocation of tenure that will reduce the allowable annual cut of major licence holders, including Interfor, by 20%.

The Crown has stated that fair compensation will be provided for the taking of AAC that recognizes both the benefits and costs of reform. Interfor is currently in discussion with the Crown to complete a comprehensive settlement for compensation. However, the outcome is uncertain and if unresolved may lead to arbitration.

The overall policy changes may also form part of a settlement in a negotiation that may bring about a resolution to the Canada – U.S. softwood lumber trade dispute. In addition, some of these changes may help address outstanding First Nation issues to bring greater certainty for harvest development.

Some of these changes have already been implemented by the Crown while others remain to be fully implemented. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut

In accordance with the *Forest Revitalization Act*, the Minister of Forests has signed orders in December of 2004 that identify the tenure, the AAC to be taken and the date when the reduction will take effect. Interfor's total AAC will be reduced by 20% (579,000 cubic metres). Approximately 60 percent of the reduction (344,000 cubic metres) was taken on December 31, 2004. The remainder (235,000 cubic metres) of the reduction will take effect on December 31, 2005. In addition, 20% of Interfor's non-replaceable timber licences will also be reduced. The details of the area of timber licences to be taken and their impact on timber supply have not yet been determined.

Approximately 95% of all timber lands in British Columbia is owned by the province of British Columbia and administered by the Ministry of Forests. The *Forest Act* (British Columbia) empowers the Ministry of Forests to grant timber tenures, including tree farm licences, forest licences and timber licences. Under the terms of such licences, the amount of commercial forest land available to the forest industry in British Columbia is periodically assessed by the Ministry of Forests through its Timber Supply Review Process ("TSR").

The TSR assesses information pertaining to each timber supply unit every five years to re-determine its AAC. In 2003 Interfor's AAC was temporarily increased by 14,870 cubic metres per year (less than 1%). The increase applies to Interfor's Adams Lake forest licence and is valid for a 5 year period. In addition, the Company's AAC may be temporarily reduced in areas where logging has been suspended under Part 13 of the Forest Act (Designated Areas). Interfor's AAC was temporarily reduced by 3.9% (131,279 cubic metres per year) from Part 13 determinations made to our tenures held on the central coast in 2002. These temporary reductions were in effect until June of 2004 and have now been reinstated. A permanent reduction in AAC of a similar amount for these areas on the central coast is expected to occur once a formal decision on land use has been made by Government.

Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes, and environmental and social considerations. The AAC can be affected by factors that can exert both positive and a negative impact on timber supply. In addition to the 20% reduction and temporary changes referred to above, some overall reductions to Interfor's AAC are expected in subsequent years as a result of proposed new park additions on the North Coast, ecosystem based management requirements or other new harvesting regulations that further constrain access to timber. There can be no assurance that the amounts of such future reductions, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Aboriginal Issues

In 1997, the Supreme Court of Canada, in the Delgamuukw decision, confirmed the continued existence of aboriginal title and rights in areas of British Columbia, which are not covered by treaties. Accordingly, aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve these land claims. Any settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to gather food on public lands and some rights of self government. The effect on Interfor's timber tenures or the amounts of any compensation, if any, cannot be estimated at this time.

The duty to consult and accommodate aboriginal groups has become a central issue facing governments and the forest industry. While the courts have established the Crown has a duty to consult and accommodate aboriginal groups, there was uncertainty as to how and to what this requirement will be applied. Uncertainty also existed in what responsibility a company may have in a failure of the Crown to carry out its duty. In a Supreme Court of Canada's decision on November 18, 2004, it has made it clear that third parties (tenure holders) are not responsible for consultation and accommodation of aboriginal interests. It is the crown's obligation to consult and, where appropriate, accommodate aboriginal interests. The questions of responsibility and appropriateness of balancing interests will continue to evolve as the courts provide greater clarity to these complex issues.

In 2002, the Government of British Columbia updated its Aboriginal Consultation Policy in an attempt to create more certainty for businesses and aboriginal groups when decisions are made that could have an impact on aboriginal interests. The policy creates implementation challenges for the Government of British Columbia. The impact on Interfor and its tenures, if any, remains unclear. The Ministry of Forest initiated its Forest and Range Agreements program in 2003, which provides for revenue sharing and tenure opportunities, with a view to address the Crown's legal obligation to aboriginal groups. The Ministry of Forest intends to provide approximately 8 percent of the Province's AAC to First Nations. The reallocation of tenure to First Nations is in progress and the continuity of timber supply from these tenures remains uncertain.

Stumpage Fees

Stumpage is the fee the British Columbia government charges companies to harvest timber from Crown land. Prior to February 29, 2004, the amount of stumpage paid for each cubic metre of wood harvested was based on a target rate set by government. Stumpage payments for a harvesting area took into consideration specific operating conditions, timber quality and administrative procedures.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade issues between Canada and the United States. The move to a more open and competitive market pricing system for timber and logs for the coastal forest sector was implemented by the British Columbia government on February 29, 2004. Periodic changes in the British Columbia government's administrative policy can affect stumpage costs and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

Interfor's woodlands and manufacturing operations are subject to extensive environmental laws and regulation. The Company believes it is currently operating in compliance, in all material respects, with all applicable environmental laws and regulations. The Company conducts monitoring and independent assessments to verify its environmental performance.

Interfor has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of our environmental performance. Interfor may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have material adverse effect on Interfor's financial condition and results of operations.

Interfor has independently certified all of its forest operations to meet world class environmental standards. The Company's leadership in environmentally responsible work is designed to address the growing public and consumer preference for quality wood products from well managed forests. The Company believes in promoting the use of its wood products as a good choice for the environment.

A concern over the use of wood from old growth forests in British Columbia has been raised in the marketplace by certain groups seeking to preserve these forests. In response to market based needs, Interfor has worked proactively to provide factual information about sustainable forestry that will help its customers make environmentally responsible purchasing decisions. The Company has also been involved in a collaborative joint solutions project with certain environmental groups which has successfully addressed market based campaigns for areas of concern on the British Columbia coast.

OUTLOOK FOR 2005

After falling precipitously during the 4th Quarter, the price of structural lumber products in the North American market has rebounded by US$40 to US$50 per thousand board feet, while the Canadian dollar has maintained its strength against the U.S. dollar, trading in the US$0.80 – US$0.83 range. In the short-term, the cedar market will be negatively impacted by the extreme cold and snow across the eastern U.S. The market for structural products in Japan continues to be impacted by increased supply from Europe, Scandinavia and Russia.

Interfor expects to operate its Interior and U.S. sawmill operations on a normal basis in the 1st Quarter, 2005, while its Coastal operations will in all likelihood continue to operate on a reduced basis throughout the quarter.

The Company has embarked on a review of the strategic alternatives relating to a number of its assets and investments in order to ascertain whether shareholder value is being maximized under the Company's current configuration. At the same time, Interfor has received a "put" under the terms of its agreement with the majority shareholder of an investee company, which will require the Company to acquire the 51% interest in that company that it does not currently own. The cost to complete the transaction is expected to be in the range of $8.0 to $10.0 million. The transaction will be completed in the 2nd Quarter of 2005.

The Company's initiative to streamline its operational configuration – particularly in the Coastal area – will continue in 2005. In the short term, the Company's financial results will continue to be constrained by the inability of certain operations to function at a globally competitive level. The Company also intends to continue the initiatives to identify and realize on complementary opportunities in the B.C. Interior and U.S. Pacific Northwest.

TSX SYMBOL CHANGE

On November 22, 2004, Interfor's trading symbol on the Toronto Stock Exchange ("TSX") was changed from IFP.A to IFP.SV.A. This was part of the Symbol Change Initiative announced in April 2004 by the TSX.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations can be found in the Annual Information Form (see page 47) and on SEDAR at www.sedar.com.

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

D.K. Davies
President and Chief Executive Officer

John Horning
Senior Vice President and Chief Financial Officer

January 21, 2005

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2004 and 2003 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

January 21, 2005

International Forest Products Limited

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)

December 31, 2004 and 2003

	2004	2003 (restated – note 2)
Assets		
Current assets:		
Cash	$ 18,259	$ -
Accounts receivable	42,228	26,278
Inventories (note 4)	108,763	93,045
Prepaid expenses	10,231	6,680
Future income taxes (note 10)	7,281	4,505
	186,762	130,508
Investments and other assets:		
Investments and advances (note 5)	47,236	41,122
Deferred financing fee, net of accumulated amortization	509	53
	47,745	41,175
Property, plant and equipment (note 6)	235,449	194,660
Timber and logging roads, net of accumulated depletion and amortization	82,556	86,637
Goodwill and other intangible assets (note 3(c))	14,062	13,862
	$ 566,574	$ 466,842
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7(a))	$ -	$ 12,951
Accounts payable and accrued liabilities	85,802	69,316
Income taxes payable	579	358
	86,381	82,625
Reforestation liability, net of current portion (note 2(a))	16,982	16,170
Long-term debt (note 7(b))	74,163	-
Other long-term liabilities (note 2(a))	9,968	13,964
Future income taxes (notes 2(a), 3(c) and 10)	6,332	6,835
Shareholders' equity:		
Share capital (note 8):		
Issued and fully paid:		
Class A subordinate voting shares	294,581	293,462
Class B common shares	4,080	4,080
Contributed surplus	8,201	8,201
Cumulative translation adjustment (note 1(m))	(332)	-
Retained earnings	66,218	41,505
	372,748	347,248
	$ 566,574	$ 466,842

Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

L. L. Sander Director

[signature] Director

International Forest Products Limited

Consolidated Statements of Operations

(Expressed in thousands of Canadian dollars, except earnings (loss) per share amounts)
Years ended December 31, 2004 and 2003

	2004	2003 (restated – note 2)
Sales (note 1(j))	$ 833,480	$ 639,607
Costs and expenses:		
Production (notes 2(a) and 2(d))	695,443	596,027
Selling and administration	21,469	18,845
Less U.S. countervailing and antidumping duty deposits (notes 2(d) and 11(b))	37,483	31,040
Amortization of plant and equipment	23,226	19,507
Depletion and amortization of timber, roads and other	32,026	16,581
Restructuring costs and write-downs of plant and equipment (note 9)	26,026	3,225
	835,673	685,225
Operating earnings (loss)	(2,193)	(45,618)
Other earnings (expenses):		
Interest expense on long-term debt	(1,498)	(1,775)
Other interest expense	(1,661)	(1,931)
Other income (note 3(d))	21,509	3,298
Equity in earnings of investee companies (note 5)	8,936	7,566
	27,286	7,158
Earnings (loss) before income taxes	25,093	(38,460)
Income taxes (note 10):		
Current	3,593	495
Future (recovery) (note 2(a))	(3,213)	(16,240)
	380	(15,745)
Net earnings (loss)	$ 24,713	$ (22,715)
Net earnings (loss) per share (note 12):		
Basic	$ 0.51	$ (0.58)
Diluted	$ 0.50	$ (0.58)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2004 and 2003

	2004	2003 (restated – note 2)
Retained earnings, beginning of year, as restated (note 2(a))	$ 41,505	$ 66,399
Share issue expenses, net of future income taxes	-	(2,179)
Net earnings (loss)	24,713	(22,715)
Retained earnings, end of year	$ 66,218	$ 41,505

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years ended December 31, 2004 and 2003

	2004	2003 (restated – note 2)
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 24,713	$ (22,715)
Items not involving cash:		
Amortization of plant and equipment	23,226	19,507
Depletion and amortization of timber, roads and other	32,026	16,581
Future income taxes	(3,213)	(16,240)
Reforestation liability	812	(862)
Other long-term liabilities	(3,996)	5,087
Equity in earnings of investee companies	(8,936)	(7,566)
Write-down of plant and equipment	15,972	3,315
Other (note 3(d))	(14,509)	(2,025)
	66,095	(4,918)
Changes in non-cash operating working capital:		
Accounts receivable	(9,445)	13,881
Inventories	(1,552)	49,218
Prepaid expenses	(508)	(382)
Accounts payable and accrued liabilities	16,395	(56,908)
Income taxes	221	168
	71,206	1,059
Investments:		
Additions to property, plant and equipment	(28,690)	(23,275)
Additions to logging roads and timber	(28,940)	(16,625)
Acquisition of sawmill assets of Crown Pacific Limited Partners assets (note 3(a))	(98,955)	-
Proceeds on disposal of property, plant and equipment	33,003	3,494
Investments and other assets	2,322	528
	(121,260)	(35,878)
Financing:		
Repurchase of capital stock	-	(923)
Issuance of capital stock, net of expenses	1,119	72,549
Additions to long-term debt (notes 2(a) and 7(b))	87,577	-
Repayments of long-term debt (note 7(b))	(6,023)	(50,000)
Bank indebtedness	(12,951)	12,951
	69,722	34,577
Foreign exchange gain on cash and cash equivalents held in a foreign currency:	(1,409)	-
Increase (decrease) in cash	18,259	(242)
Cash, beginning of year	-	242
Cash, end of year	$ 18,259	$ -
Supplementary disclosures:		
Cash interest paid	$ 3,159	$ 3,706
Cash income taxes paid	3,593	495

See accompanying notes to consolidated financial statements.

1. **Significant accounting policies:**

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries Saltair Timber Products Ltd., Primex Fibre Ltd., Helifor Industries Limited, Interfor Japan Ltd., Cedarprime Inc., Interfor Pacific Inc., Prineco Inc., Interfor U.S. Inc., Interfor U.S. Holdings L.P., Interfor U.S. LLC, Klamath Northern Railway Company and Interfor China Ltd. from their respective dates of acquisition. All intercompany balances and transactions have been eliminated on consolidation.

(b) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis. Other inventories consist primarily of supplies and are recorded at cost.

(c) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Other investments are accounted for on the cost basis.

(d) Property, plant and equipment and timber and logging roads:

Property, plant and equipment and timber and logging roads are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 25%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years.

(e) Reforestation liability:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest and timber licences. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur. These costs are included in the cost of current production.

(f) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of arbitration, restructuring, reforestation, road deactivation, environmental and tax obligations, recoverability of assets and rates for depletion and amortization. Actual results could differ from those estimates.

(h) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

1. Significant accounting policies (continued):

(i) Share-based compensation:

The Company has share option plans and other share-based compensation plans for directors, officers and certain other eligible employees.

The Company follows the fair value method of accounting for share options granted to directors, officers and employees. Under the fair value method, compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant.

For other share based compensation plans which are based on changes in the value of the Company's share price, the Company records an expense for changes in the estimated compensation over the vesting period based on the quoted market price of the Company's shares over the strike price of the grant.

(j) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, before discounts, freight, wharfage and handling costs, and countervailing and antidumping duties.

(k) Employee future benefits:

The estimated costs for pensions and other post-retirement benefits provided to employees by the Company is accrued using actuarial techniques and assumptions, including an appropriate discount rate, during the employees' active years of service.

Future salary levels and cost escalation do not affect the amount of employee future benefits and therefore the accumulated benefit method has been used to determine the accrued benefit obligation.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Where, as of the beginning of the year, the unamortized net actuarial gain or loss exceeds ten percent of the greater of the benefit obligation and the fair value of the plan assets, the excess is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is ten years for each of 2004 and 2003.

(l) Hedging relationships and accounting for derivative financial instruments:

The Company uses derivative financial instruments for hedging purposes in the management of foreign currency and interest rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis to ensure the derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange exposure to foreign currency receipts and related receivables, primarily U.S. currency, is managed through the use of foreign exchange forward contracts and options.

The Company has chosen to not designate its derivative forward foreign exchange contracts and options as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

Exposure to interest rates on long-term debt is managed through the use of interest swaps. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Amounts accounted for under interest swap agreements are recognized as adjustments to interest expense.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

1. **Significant accounting policies (continued):**

(m) Foreign currency translation:

The integrated subsidiaries of the Company translate monetary items to Canadian Dollars at exchange rates in effect at the balance sheet date and non-monetary items at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in production costs or sales, depending upon what type of activity originated the balances.

Self-sustaining operations' assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Any material corresponding foreign exchange gains and losses are deferred and disclosed separately as a cumulative translation adjustment, a separate component of shareholders' equity.

Long-term obligations denominated in foreign currencies are designated as hedges of investments in self-sustaining operations. Accordingly, cumulative unrealized gains or losses arising from the translation of these obligations are recorded as cumulative translation adjustments.

(n) Net earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method.

(o) Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

2. **Adoption of accounting policy changes:**

The following accounting policy changes have an effective date of January 1, 2004:

(a) Asset retirement obligations:

The Company retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") new handbook section 3110, *Asset Retirement Obligations*, which for the Company encompasses primarily reforestation and road deactivation liabilities. Under this new section, asset retirement obligations are recognized at the fair value in the period in which the legal obligation was incurred, with fair value of a liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

The following changes to historical financial statements have been made to reflect the new policy:

	Prior Policy	New policy (restated – note 2(d))
Statement of Operations for the year ended December 31, 2003:		
Production costs	$ 591,234	$ 596,027
Future income taxes recovery	16,078	16,240
Net loss	22,990	22,715
Net loss per share	0.58	0.58
Balance Sheet as at December 31, 2003:		
Reforestation liability	$ 21,044	$ 16,170
Other long-term liabilities	14,463	13,964
Future income taxes payable	5,035	6,835
Retained earnings, ending	37,932	41,505

Utilizing a before-tax discount rate of 7.0%, the reforestation liability was estimated based on an assumption of undiscounted cash flows of $31,000,000 (2003 - $31,000,000) to be paid over a 15 year period, and the road deactivation liability was based on undiscounted cash flows of $5,000,000 (2003 - $5,000,000) to be paid over a 11 year period.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

2. Adoption of accounting policy changes (continued):

(b) Hedging relationships and accounting for derivative financial instruments:

The Company adopted the CICA new Accounting Guideline-13, *Hedging Relationships*, which discusses the identification, designation, documentation and effectiveness of hedging relationships. The new requirements have been applied on a prospective basis to all instruments existing on, or entered into after January 1, 2004. The Company believes that its use of derivative foreign currency forwards and options described in notes 1(l) and 16(b) results in an economic hedge against fluctuations in foreign exchange rates related to future revenue. However, the Company has chosen to not designate its derivative forward foreign exchange contracts and options as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

(c) Impairment of long-lived assets:

The Company adopted the new CICA recommendations of Section 3063, *Impairment of Long-lived Assets*. These recommendations require the Company to determine if an impairment loss exists, by determining if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. Prior standards required that an impairment loss be measured at the amount by which the long-lived asset's carrying amount exceeded its undiscounted cash flows. On adoption, this new standard did not impact the Company's consolidated financial statements.

(d) Countervailing and anti-dumping duties and freight, wharfage and handling costs:

The CICA introduced a new recommendation for the application of generally accepted accounting principles (GAAP), which provides guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. Prior to January 1, 2004, the Company, along with other companies in the forest industry, presented sales net of countervailing and anti-dumping duties and freight, wharfage and handling costs. In accordance with the new GAAP standard, countervailing and anti-dumping duties have been reclassified to costs and expenses. Similarly, freight, wharfage and handling costs have also been reclassified to production costs. Prior period amounts have been restated to reflect these reclassifications.

3. Acquisition, Disposals and Reorganizations:

(a) Crown Pacific Limited Partnership asset acquisition:

On September 1, 2004 the Company acquired the sawmill assets of Crown Pacific Limited Partnership and its affiliates ("Crown Pacific") in the U.S. Pacific Northwest. To acquire these assets, the Company paid $98,955,000, of which $41,622,000 was financed through the existing Revolving Line, $45,955,000 was financed through a new Non-Revolving Line, and the balance through the Operating Line, more fully described in Note 7.

This acquisition has been accounted for using the purchase method and the purchase price is allocated as follows:

Net assets acquired:		
Current assets	$	23,715
Property, plant and equipment		74,979
Intangible assets		295
		98,989
Liabilities assumed:		
Current liabilities		34
	$	98,955
Cash consideration funded by:		
Operating Line	$	11,378
Revolving Line		41,622
Non-revolving Line		45,955
	$	98,955

(b) Disposal of subsidiary companies:

On January 31, 2003, the Company disposed of its wholly owned subsidiary, Westminster Wood Products Ltd. for cash proceeds of $400,000 and which resulted in a reduction of non-cash operating working capital of $97,000.

The Interfor/Kvamua Joint Venture was dissolved during 2003.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

3. Acquisition, Disposals and Reorganizations (continued):

(c) Reorganizations:

During 2003, the Company reorganized its corporate structure which concluded in the wind-up of Primex Forest Products Ltd. and the Field Sawmills Limited Partnership. The reorganizations resulted in a reduction of goodwill of $5,700,000 and corresponding decrease in non-current future income tax liability.

(d) Sale of surplus properties and other income:

	2004	2003
Break fee, net of costs	$ 7,000	$ -
Gain on disposal of surplus properties	13,720	-
Gain on disposal of other property, plant and equipment	789	1,092
Other	-	2,206
	$ 21,509	$ 3,298

During 2004, the Company sold four surplus properties located in British Columbia, including two of four phases of the Sawyer's Landing property in Pitt Meadows (former location of its Bay Lumber mill), its former McDonald Cedar mill property in Fort Langley, and a significant component of its former Fraser Mills property in Coquitlam. The Company received net proceeds of $ 31,772,000 and recorded a net gain of $13,720,000.

On October 4, 2004, the Company announced that it had reached an agreement to acquire the outstanding shares of Riverside Forest Products Limited ("Riverside"), subject to regulatory and contractual conditions. On October 22, 2004, the Company announced the termination of the previously announced agreement in response to another company's offer to the shareholders of Riverside and Riverside's Special Committee having determined that the other company's offer was superior to the Company's offer.

On October 22, 2004, the Company also terminated the lock-up agreements with certain executive officers of Riverside, who had agreed to tender their shares to the Company's offer. Under the terms of the terminations, the Company received a break fee of $11,000,000 from Riverside, which was recorded in other income, net of costs.

4. Inventories:

	2004	2003
Logs	$ 68,980	$ 61,960
Lumber	34,815	27,802
Other	4,968	3,283
	$ 108,763	$ 93,045

5. Investments and advances:

	2004	2003
Seaboard Shipping Company Limited	$ 36,012	$ 31,458
Other	11,224	9,654
	$ 47,236	$ 41,112

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 36

5. Investments and advances (continued):

(a) Investment in Seaboard Shipping Company Limited:

The Company is the holder of 60% of the outstanding common shares of Seaboard Shipping Company Limited ("Seaboard"). The remaining common shares are held by other British Columbia forestry companies. Seaboard operates ocean-going vessels that provide service to world ports with contractual commitments for lumber and plywood volumes, as well as other general cargo. Although the Company owns over 50% of the common shares of Seaboard, the shareholders have entered into agreements that limit the Company's ability to control Seaboard's strategic financing, investing and operating decisions. In addition, net earnings of Seaboard are distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership.

The Company accounts for its investment in Seaboard using the equity method as follows. The initial investment in Seaboard is recorded at cost and the investment is increased for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard. The Company's percentage of Seaboard's shipments is 72.0% in 2004 (2003 – 69.6%).

Summarized information of Seaboard is as follows:

	2004	2003
Total assets	$ 61,000	$ 81,000
Shareholders' equity	54,000	67,000
Net sales	72,000	67,000
Interfor's shipment percentage	72.0%	69.6%
Interfor's equity in earnings	$ 8,046	$ 6,654
Cash distributions received	3,492	-

(b) Other investments:

Other investments include a 49% interest in a specialty lumber remanufacturer, at a carrying value of $8,713,000 (2003 - $7,718,000), and various other long-term advances and minor investments. During the year, the Company recorded $995,000 (2003 - $912,000) in equity earnings and did not receive cash distributions from other investee companies in either 2004 or 2003.

6. Property, plant and equipment:

2004	Cost	Accumulated amortization	Net book value
Land	$ 23,962	$ -	$ 23,962
Buildings	85,045	47,001	38,044
Machinery and equipment	326,512	172,126	154,386
Automotive equipment	18,545	15,697	2,848
Other	43,672	27,463	16,209
	$ 497,736	$ 262,287	$ 235,449

2003	Cost	Accumulated amortization	Net book value
Land	$ 35,653	$ -	$ 35,653
Buildings	76,091	42,002	34,089
Machinery and equipment	265,790	158,300	107,490
Automotive equipment	17,350	14,646	2,704
Other	39,075	24,351	14,724
	$ 433,959	$ 239,299	$ 194,660

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

The Company has a maximum operating line of credit totaling $75,000,000 (2003 - $75,000,000). The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories. As at December 31, 2004, the maximum borrowing available was $74,299,000 (2003 - $60,641,000), of which $69,582,000 (2003 - $42,200,000) was unused. The line utilization includes outstanding letters of credit of $4,717,000 (2003 - $4,047,000). The loan bears interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line of credit is secured and is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. The line matures on April 28, 2005.

(b) Long-term debt:

The Company restructured its term financing on September 1, 2004 in order to facilitate the acquisition of the sawmill assets of Crown Pacific Limited Partnership and its affiliates. The Canadian revolving term line (the "Revolving Line") was increased to $90,000,000 from $75,000,000 and the maturity date was extended to April 27, 2007. On September 1, 2004, to fund the acquisition of Crown Pacific assets, the Company drew US$31,700,000 (CAD$41,622,000) on this line and subsequently repaid US$5,000,000 (CAD$6,023,000) on December 31, 2004. As at December 31, 2004, the Revolving Line was drawn by US$26,700,000 and revalued at the month-end exchange rate to CAD$32,093,000 (2003 - $nil). The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or Libor based loans.

A new $US non-revolving term line (the "Non-Revolving Line") was established in the amount of US$35,000,000 (CAD$45,955,000) with a maturity date of September 1, 2009. As at December 31, 2004, the line was fully drawn and revalued at the month-end exchange rate to CAD $42,070,000. The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Libor based loans.

Both lines are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

Minimum principal amounts due on long-term debt within the next five years are follows:

2005	$	-
2006		-
2007		32,093
2008		-
2009		42,070
	$	74,163

8. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2004 and 2003 consists of:

100,000,000 Class A subordinate voting shares without par value

1,700,000 Class B common shares without par value

5,000,000 preference shares without par value

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

8. Share capital (continued):

(a) Share transactions (continued):

Share transactions during 2004 and 2003 were as follows:

	Number			
	Class A	Class B	Total	Amount
Balance, December 31, 2002	34,523,716	1,015,779	35,539,495	$ 222,535
Shares issued through public offering	12,900,000	-	12,900,000	75,465
Shares issued on exercise of options	83,680	-	83,680	381
Share repurchases	(132,500)	-	(132,500)	(839)
Balance, December 31, 2003	47,374,896	1,015,779	48,390,675	297,542
Shares issued on exercise of options	244,920	-	244,920	1,119
Share repurchases	-	-	-	-
Balance, December 31, 2004	47,619,816	1,015,779	48,635,595	$ 298,661

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

On September 11, 2003 the Company issued 12,900,000 Class A subordinate voting shares without par value at a price of $5.85 per share for gross proceeds of $75,465,000. The net proceeds of $72,170,000 after share issue costs were used to pay down existing bank indebtedness.

On November 15, 2002, the Company commenced a normal course issuer bid to acquire up to 2,979,000 Class A shares (representing approximately 8.54% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding shares being purchased in any 30-day period. During 2003 the Company acquired 132,500 Class A shares at a total cost of $923,000 and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled $85,000 and has been charged to contributed surplus in the year ended December 31, 2003. The program terminated on November 14, 2003.

At December 31, 2004, Class A shares are reserved for possible future issuance as follows:

(i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and

(ii) 2,587,500 Class A shares are reserved for possible issuance pursuant to the share option plan.

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2004 are exercisable at prices ranging from $3.65 to $9.00 per share, the closing market price for the shares on the dates that the options were granted. The options expire at various dates between July 30, 2007 and April 30, 2011.

Details of the Company's share option plan for the years ended December 31, 2004 and 2003 are as follows:

	2004		2003	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,162,020	$ 4.59	2,257,300	$ 4.58
Granted	-	-	-	-
Exercised	(244,920)	4.57	(83,680)	4.55
Expired or cancelled	(42,300)	3.96	(11,600)	4.57
Outstanding, end of year	1,874,800	$ 4.60	2,162,020	$ 4.59
Options exercisable, year end	1,458,260	$ 4.72	1,292,640	$ 4.75

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 39

8. Share capital (continued):

(b) Share option plan (continued):

Details of options outstanding under the share option plan at December 31, 2004 are as follows:

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding, December 31 2004	Weighted average remaining option life (yrs)	Weighted average exercise price	Number exercisable, December 31 2004	Weighted average exercise price
$9.00	43,400	2.6	$ 9.00	43,400	$ 9.00
$3.65-$5.00	1,831,400	5.2	4.50	1,414,860	4.60
	1,874,800		$ 4.60	1,458,260	$ 4.72

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash if the incremental common share price thresholds are achieved or other performance measures met.

	2004		2003	
	Shares	Weighted average strike price	Shares	Weighted average strike price
Outstanding, beginning of year	1,105,600	$ 5.03	751,700	$ 4.33
Granted	217,500	6.07	373,600	6.45
Exercised	(40,600)	4.33	-	-
Expired or cancelled	(58,400)	4.98	(19,700)	5.04
Outstanding, end of year	1,224,100	$ 5.24	1,105,600	$ 5.03
Units exercisable, year end	254,840	$ 4.33	-	$ -

Details of units outstanding under the SAR Plan at December 31, 2004 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2004	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2004	Weighted average strike price
$4.33	738,600	7.0	$ 4.33	254,840	$ 4.33
$6.07-$6.45	367,000	8.5	6.31	-	-
	1,224,100		$ 5.24	254,840	$ 4.33

The Company has recorded compensation expense of $746,000 (2003 - $470,000) for the year ended December 31, 2004. Accrued compensation payable on unexercised units totaled $1,422,000 (2003 - $852,000) at December 31, 2004.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

8. Share capital (continued):

(d) Total Shareholder Return Plan:

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount. For the first three year period which commenced in fiscal 2003, minimum target awards have been guaranteed irrespective of the actual compound growth rate. The Company has accrued and expensed $1,044,000 for the year ended December 31, 2004 (2003 - $1,063,000). Accrued compensation payable in respect of the TSR Plan totaled $1,535,000 at December 31, 2004 (2003 - $1,063,000).

(e) Deferred Share Unit Plan:

In January 2004, the Company introduced a Deferred Share Unit ("DSU") Plan for Directors and senior officers of the Company. The Plan, which allows for immediate vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSUs either increase or decrease in value in a direct relationship with the Company's Class "A" Subordinate Voting shares. Participants in the Total Shareholder Return Plan may elect to receive their award in DSUs at the end of any performance period. DSUs may also be granted directly to Directors or senior employees of the Company at the discretion of the Board. In January 2004 a total of 24,000 DSUs were granted to Directors under the plan at a value of $6.05 per unit. The Company has accrued and expensed $160,000 for the year ended December 31, 2004 (2003 - $nil) in respect of the DSU Plan. Subsequent changes to share values will result in adjustments to compensation expense.

9. Restructuring costs and write-downs of plant, equipment and timber:

The Company recorded restructuring costs, and write-downs of plant, equipment and timber consisting of the following:

	2004	2003
Plant, equipment and timber write-downs	$ 15,972	$ 3,165
Severance and other restructuring costs	10,054	2,960
Other (recoveries)	-	(2,900)
	$ 26,026	$ 3,225

In light of poor lumber markets, the continuing U.S. softwood lumber dispute (note 11 (b)), the 20% reduction of the Company's timber tenures (note 11 (c)), and the continued strength of the Canadian dollar against the U.S. dollar, the Company reduced staff levels and made the decision to permanently close its Specialty Products Division in 2003. Accordingly, the Company recorded $3,165,000 in write-downs of plant and equipment and $2,960,000 in severance and other related restructuring costs in 2003. These amounts were partially offset by a reversal of previously accrued restructuring costs of $2,900,000.

In 2004, the Company continued its program of rationalizing operations in anticipation of the imminent timber tenure reductions and to maintain a competitive cost structure. After more than a year of curtailed operations due to poor economic conditions, the Company permanently closed its sawmill in Squamish, effective October 31, 2004. As a result of the closure of the Squamish mill, the Company recorded restructuring costs of $19,177,000 including plant and equipment writedowns of $13,820,000 and severance and other costs.

The Company also negotiated the termination of a replaceable logging contract and restructured the labour contract at the Albion remanufacturing facility, which together resulted in additional restructuring costs of $1,311,000. As a direct consequence of the timber take-back, the Company restructured its Empire and Hope logging divisions which resulted in significant reductions in staff levels and other writedowns in late 2004. The reductions in the timber supply, coupled with the continued strengthening of the Canadian dollar against the U.S. dollar, caused the Company to review its cost structure in the manufacturing divisions and rationalize its operations in manufacturing and marketing. As a result, the Company recorded further restructuring costs of $5,538,000 for severance and other costs.

As at December 31, 2004, $4,604,000 (2003 - $1,621,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2005 in accordance with its restructuring plans.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

9. Restructuring costs and write-downs of plant, equipment and timber (continued):

The Government of British Columbia ("Crown") has established the B.C. Forestry Revitalization Trust to mitigate the costs of restructuring workers and contractors who are displaced by the reductions in harvesting rights taken under the *Forestry Revitalization Act.* The Company will pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any mitigation is not yet determinable.

10. Income taxes:

Future income taxes are determined as follows:

	2004	2003
Future income tax assets:		
Losses carried forward	$ 22,241	$ 26,023
Reforestation, restructuring and other accruals deductible when paid	17,483	16,634
Other	-	569
	39,724	43,226
Valuation allowance	-	-
	39,724	43,226
Future income tax liabilities:		
Property, plant and equipment	(38,669)	(45,556)
Other	(106)	-
	$ 949	$ (2,330)
Current future income tax assets	$ 7,281	$ 4,505
Non-current future income tax liabilities	(6,332)	(6,835)
	$ 949	$ (2,330)

The reconciliation of income taxes at the statutory rate to the income tax expense (recovery) is as follows:

	2004	2003
Income tax expense (recovery) at the statutory rate of 35.62% (2003 - 35.82%)	$ 8,962	$ (13,776)
Non-taxable income of investments accounted for by the equity method	(2,827)	(2,718)
Large corporations tax	1,000	1,000
Non-taxable portion of capital gains	(6,542)	(1,439)
Other	(213)	1,188
	$ 380	$ (15,745)

The Company's non-capital loss carry-forwards of approximately $62,400,000 (2003 - $70,700,000) expire between 2008 and 2024, and are available to reduce future taxable income.

11. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2005	$ 24,000
2006	4,700
2007	4,600
2008	4,400
2009	4,300

11. Commitments and contingencies (continued):

(b) Contingent liability:

On March 21, 2002 and further adjusted on April 25, 2002, the U.S. Department of Commerce ("USDOC") issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79%. The USDOC's final determination in the antidumping investigation resulted in Company specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies including this Company.

On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from May 22, 2002, cash deposits were required for shipments at the rates determined by the USDOC. All prior bonds or cash deposits posted prior to May 22, 2002 and since inception of this dispute on April 2, 2001 were refunded.

Effective December 20, 2004, the USDOC implemented new deposit rates for shipments made after this date. The USDOC reduced the countervailing duty deposit rate to 17.18% from 18.79% and the all others anti-dumping deposit rate to 4.03% from 8.43%. These new deposit rates are based on the USDOC's final rate determinations for the first Administrative review period (May 22, 2002 to March 31, 2003 for the countervailing duty case and May 22, 2002 to April 30, 2003 for the anti-dumping duty case).

The Company has expensed $37,483,000 (2003 - $31,040,000) in duties for the year ended December 31, 2004 representing the combined final countervailing and antidumping duties of 27.22% for the period from January 1, 2003 to December 20, 2004 and 21.21% from December 20, 2004. The Company has paid US$66,776,000 (2003 - US$48,955,000) in cash deposits since May 22, 2002. These total U.S. deposits translated at the year-end exchange rate equate to $80,265,000 at December 31, 2004.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, NAFTA panels and the WTO.

NAFTA and WTO panels have issued several rulings with respect to the countervailing and anti-dumping investigations. The USDOC has responded to these rulings and modified its methodology and calculations in evaluating and calculating subsidy and dumping rates. However, primarily in the countervailing case, with each response to NAFTA panel rulings, the USDOC's methodology changes have resulted in substantive changes to the duty rates, both up and down, making it difficult to accurately estimate, the final rates after all appeals will be complete. As a result, the Company has not recorded any receivable for prior periods related to the change in the cash deposit rate applicable to new shipments.

A NAFTA Panel, in reviewing the "threat of injury" determination made by the USITC, has ruled that the USITC has not been able to provide the NAFTA Panel with substantive evidence to support the USITC ruling of "threat of injury". The NAFTA Panel requested that the USITC reverse its ruling on "threat of injury" with which the USITC reluctantly complied. US interests are appealing this ruling to an Extraordinary Challenge ("EC") Panel. If the EC Panel upholds this finding by the NAFTA Panel, Canadian interests would expect that all prior duties paid would be refunded with interest. However, there can be no certainty that the USDOC would comply with this ruling and U.S. industry and trade groups have indicated that they may even challenge the constitutional validity of NAFTA in US courts.

The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels. Notwithstanding the final rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete, including appeals.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

11. Commitments and contingencies (continued):

(c) B.C. Forest Revitalization Plan:

In March 2003, the Government of B.C. introduced the Forestry Revitalization Plan ("the Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure and timber licences to the Crown. The Plan states that approximately half of this volume will be redistributed to open opportunities for woodlots, community forests, and First Nations, and the other half will be available for public auction under the Timber Sales Program. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs.

In December 2004, the Crown issued Ministerial Orders to the Company specifying the timing and the volume of the take-back for replaceable tenures. Approximately 344,000 cubic metres of the Company's existing allowable annual cut on their replaceable tenures was taken in December 2004, and the balance of 235,000 cubic metres will be taken by December 31, 2005, for a total of 579,000 cubic metres. Discussions continue to determine the specifics of the timber licence takings. The Company is currently in negotiation with the Crown for compensation for timber volumes taken and related infrastructure which it feels it is entitled to under the terms of the *Forest Revitalization Act*, but the amount and timing of any compensation is not yet determinable. The Company will record the compensation at the time the amounts to be recorded can be estimated.

(d) Surety Performance Bonds

The Company has obtained $4,521,000 in surety performance bonds issued to the U.S. Department of Agriculture in respect of completion of obligations under various timber sale agreements. The expiry date of these bonds range from October 2005 through January 2006.

(e) Sale of surplus property

The Company has entered into an agreement to sell the remaining property at its former Fraser Mill site in Coquitlam, British Columbia for $3,750,000 contingent upon delivery of an unconditional certificate of compliance after all environmental and site cleanup has been completed. The Company has the right to continue use of the property under a sale leaseback arrangement with a lease expiry of 2009. The disposal of the property will be recorded upon completion of the sale.

(f) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

(g) Commitment to acquire equity investee:

The majority shareholders of an investee company have exercised their option under a shareholders' agreement to put their shares to the Company. The transaction is expected to close in mid-2005. The amount to be paid for the shares is to be determined early in 2005 and is dependent upon appraised values of assets and a formula related to shareholders' equity. As such, the amount to be paid is estimated to range from $8,000,000 to $10,000,000 at this time.

12. Net earnings (loss) per share:

Net earnings (loss) per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2004			2003		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	$ 24,713	48,422	$ 0.51	$ (22,715)	39,456	$ (0.58)
Share options	-	669	-	-	-	-
Diluted earnings (loss) per share	$ 24,713	49,091	$ 0.50	$ (22,715)	39,456	$ (0.58)

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

13. Pension plans:

The Company maintains pension benefit plans which include a defined contribution plan that is available to all salaried employees and a defined benefit plan that is available to hourly employees not covered by a union pension plan. The defined benefit plan provides a pension based on years of service.

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its funded pension plans, cash contributed to its defined contribution plans, and cash contributed to its multiemployer defined benefit plan, was $8,182,000 (2003 – $6,609,000).

(a) Defined contribution plan:

For the defined contribution plan, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings on the contributions. For the defined contribution plan, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2004, the pension expense for this plan is equal to the Company's contribution of $1,825,000 (2003 - $2,028,000).

(b) Defined benefit plan:

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003, and the next required funding valuation will be as of December 31, 2006.

	2004	2003
Accrued benefit obligation:		
Beginning of year	$ 13,307	$ 11,401
Actuarial (gain) loss	(458)	-
Service cost	549	430
Interest cost on accrued benefit obligation	858	814
Benefit payments	(394)	(367)
Experience loss on change of discount rate	487	1,029
End of year	14,349	13,307
Plan assets:		
Fair value, beginning of year	10,826	9,572
Expected return on plan assets	806	671
Employer contributions	1,654	328
Employee contributions	108	102
Benefit payments	(394)	(367)
Actuarial (gain) loss	207	520
Fair value, end of year	13,207	10,826
Unfunded liability	(1,142)	(2,481)
Actuarial gain (loss)	1,785	2,099
Accrued benefit asset (liability)	$ 643	$ (382)

Plan assets consist of:

Asset category	2004	2003
	Percentage of plan assets	
Equity securities	65%	64%
Debt securities	33%	32%
Other	2%	4%
Total	100%	100%

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

13. Pension plans (continued):

(b) Defined benefit plan (continued):

The accrued benefit asset or liability is included in the Company's balance sheet as follows:

	2004	2003
Other assets	$ 1,065	$ -
Other long-term liabilities	(422)	(382)
	643	(382)

The Company's net expense for the Company's defined benefit pension plan is as follows:

	2004	2003
Current service cost	$ 442	$ 328
Interest cost	858	814
Expected return on plan assets	(806)	(671)
Amortization of experience losses	143	49
	$ 637	$ 520

Actuarial assumptions used in accounting for the Company maintained benefit plans are:

	2004	2003
Accrued benefit obligation as of December 31		
Discount rate	6.25%	6.5%
Compensation increases	Not applicable	Not applicable
Pension expense		
Discount rate	6.5%	7.0%
Expected return on plan assets	7.0%	7.0%
Compensation increases	Not applicable	Not applicable

(c) Unionized employees' pension plan:

The Company and its subsidiaries contribute to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2004, the pension expense for these plans is equal to the Company's contribution of $4,703,000 (2003 - $4,253,000).

(d) U.S. operations benefit plan:

During 2004, Interfor Pacific Inc., the Company's U.S. operating subsidiary, established a 401K Plan. Company contributions are based on a discretionary profit sharing allocation. Contributions to the employee vest in years two through six are at a rate of 20% per annum. During the year the Company made no contributions to the plan but $307,000 was accrued.

(e) Senior management supplementary pension plan:

The Company has agreed to provide supplementary pension benefits to certain members of its senior management. A number of the commitments are for defined benefit amounts currently being paid to retired senior managers of the Company, and the remainder are in the form of a notional extension of the defined contribution plan. These commitments are not funded but are fully accrued by the Company, with some of the commitments being secured by irrevocable letters of credit.

The amounts accrued are as follows:

	2004	2003
Accrual for defined contribution commitments	$ 1,450	$ 1,176
Accrual for defined benefit commitments	1,672	1,857

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

14. Related party transactions:

Lumber sales to an affiliate of a significant shareholder amounted to $3,526,000 (2003 - $5,283,000) and to an investee company, $1,652,000 (2003 - $2,260,000). Shipping services provided by Seaboard Shipping Company Limited totaled $15,523,000 (2003 - $19,349,000). These transactions were conducted on a normal commercial basis, including terms and prices.

15. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada and the Pacific Northwest, U.S.A.

The Company sells to both foreign and domestic markets as follows:

	2004	2003
Canada	$ 299,616	$ 235,435
United States	269,851	173,045
Japan	170,314	151,066
Other export	93,699	80,061
	$ 833,480	$ 639,607

Sales by product line are as follows:

	2004	2003
Lumber	$ 633,865	$ 486,404
Logs	126,564	90,822
Wood chips and other by products	38,351	28,499
Other	34,700	33,882
	$ 833,480	$ 639,607

Capital assets, goodwill and other intangibles by geographic location are as follows:

	2004	2003
Canada	$ 258,732	$ 287,975
United States	73,335	7,184
	$ 332,067	$ 295,159

16. Financial instruments:

(a) Fair value of financial instruments:

The Company had no long term debt at December 31, 2003. At December 31, 2004, the fair value of the Company's long-term debt approximated its carrying value of $74,163,000 as the majority of the long-term debt bore interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at December 31, 2004, the Company has outstanding obligations to sell a maximum of US$17,000,000 at an average rate of CDN$1.2120 and Japanese ¥240,000,000 at an average rate of ¥85.87 to the CDN$ during 2005. All foreign currency gains or losses to December 31, 2004 have been recognized in the statement of operations.

There were no interest rate swaps outstanding as at December 31, 2004.

(c) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At December 31, 2004, the Company received cash proceeds of $25,000,000 (2003 - $10,000,000) from the sale of receivables.

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of March 21, 2005

DESCRIPTION OF THE BUSINESS

International Forest Products Limited is one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world. The Company has operations in British Columbia, Washington and Oregon, including five sawmills in the Coastal region of B.C., one in the B.C. Interior, two in Washington and one in Oregon. Interfor also operates a number of value-added remanufacturing and specialty products facilities in B.C. and Washington.

The Company has numerous woodlands operations in B.C. and is an industry leader in employing innovative forestry practices and certifying its forest operations. Interfor is committed to conducting all of its operations in a socially responsible manner to meet the needs of its customers, shareholders and employees.

The Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963. On December 1, 1979 the Company amalgamated with its subsidiary, Whonnock Forest Products Limited. On January 1, 1988 the Company changed its name from Whonnock Industries Limited to International Forest Products Limited. Its principal office as well as its registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company" or "Interfor" means International Forest Products Limited and its predecessors and all its subsidiaries. The five major subsidiaries, Interfor Pacific Inc., CEDARPRIME Inc., Saltair Timber Products Ltd., Helifor Industries Limited and Interfor Japan Ltd., whose operations are described below, are wholly-owned by Interfor. Interfor Pacific Inc. and CEDARPRIME Inc. are incorporated in the State of Washington and the other three subsidiaries are incorporated under the laws of B.C.

HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS

Interfor's business originated in the 1930's with a sawmill in Whonnock, about 48 kilometers east of Vancouver B.C. Since that time, the Company has made significant investments to expand, upgrade and diversify its production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources from other companies.

In June 1998, the Company began a restructuring program that included aggressive cost-cutting measures through simplifying and streamlining its logging and sawmilling operations and administrative procedures. It also involved rationalizing the Company's production capacity to correspond with its timber supply and markets.

In May 2001, the Company acquired 96% of the shares of Primex Forest Products Ltd. through a public offering and in July 2001, acquired the remaining outstanding shares. To finance the acquisition, Interfor issued 3,783,454 Class "A" subordinate voting shares with a fair market value of $16.1 million and incurred debt of $98.4 million. In October 2001, the sawmill operations of Fraser Mills were permanently closed but the remanufacturing facilities at the Fraser Mills site continue to process lumber for other Interfor sawmills.

In 2002, the Company continued to benefit from its cost-cutting measures, increased production levels and a weak Canadian dollar as it earned $39.6 million, the highest level of earnings in more than eight years. In November 2002, the business and operating equipment of a remanufacturing plant operated by the Company in Langley, B.C., was relocated to Sumas, Washington operating as CEDARPRIME Inc.

In 2003, a combination of U.S. duties on softwood lumber, a stronger Canadian dollar, difficult market conditions in Japan and a four-week labour strike contributed to lower operating levels and a net loss of $22.7 million. However, after changes in working capital, the Company generated a modest cash flow from operations of $1.1 million. In September 2003, Interfor completed an equity issue of 12,900,000 shares at $5.85 per share and used the proceeds primarily to pay down existing bank indebtedness.

Early in 2004, lumber prices in North America and Japan improved and a new stumpage system was implemented on the Coast of B.C. resulting in increased production and improved profitability for the first three quarters of the year. By the fourth quarter, lumber prices declined in both North America and Japan while the Canadian dollar strengthened against the U.S. currency, reducing profitability in the fourth quarter.

In September, 2004 Interfor's subsidiary, Interfor Pacific Inc., acquired three sawmills in the U.S. Pacific Northwest increasing the Company's annual lumber capacity by 310 million board feet and improving the geographic diversity of the Company's sawmill operations. In October, the Company permanently closed its mill in Squamish that had not operated since April 2003. In November, a re-build of the Western Whitewood Mill in New Westminster was begun. The $25 million project is expected to be completed in April 2005 and to result in reduced costs, increased lumber recovery and capacity.

Early in 2005, the price of structural lumber products rebounded by approximately US$40 per thousand board feet in the North American market and the Canadian dollar weakened slightly to provide an improvement in economic conditions in the first quarter of the year. In 2005, the Company will continue to streamline its operating configuration, particularly on the B.C. Coast. See Management Discussion and Analysis for the year ended December 31, 2004, a copy of which is available from SEDAR at www.sedar.com and is incorporated by reference in this Annual Information Form.

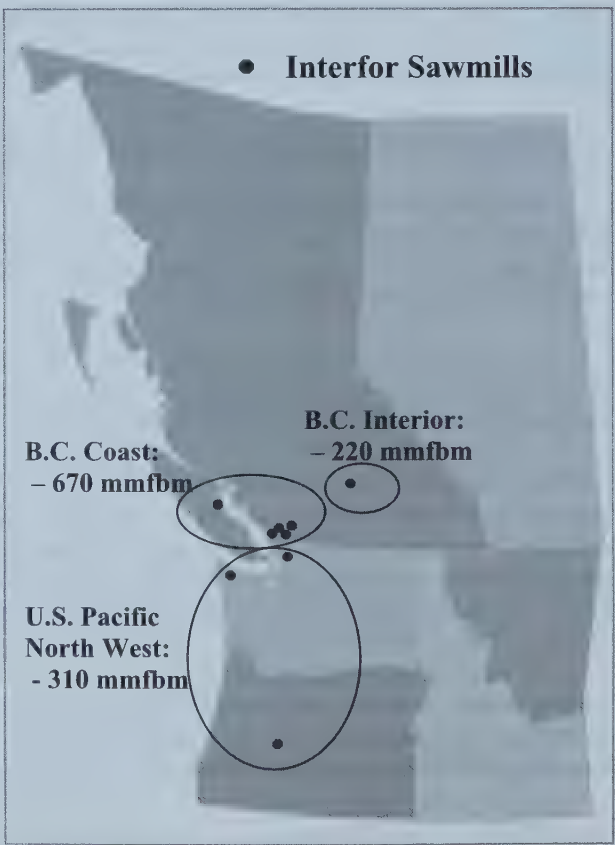
BUSINESS ACQUISITION

The acquisition of three sawmills referred to above from Crown Pacific Limited Partnership ("Crown Pacific") is described in greater detail under the heading MANUFACTURING below. The Company filed a Business Acquisition Report Form 51-102F4 on November 15, 2004. This report can be obtained from SEDAR at www.sedar.com and is incorporated by reference in this Annual Information Form.

MANUFACTURING

Interfor operates nine sawmills and four remanufacturing plants in B.C., Washington and Oregon. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 84 inches (10 centimetres to 210 centimetres). Many of the Company's manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements. In addition to improving the Company's manufacturing capability through upgrades, Interfor has increased its efficiency and diversity and expanded its capacity through the recent addition of two sawmills on the Coast of B.C. previously operated by Primex Forest Products Limited, and three sawmills in the U.S. Pacific Northwest previously operated by Crown Pacific. These acquisitions also enabled the Company to expand its business while closing two sawmills for which upgrades would not represent a viable investment.



Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Normal Number of Shifts (per day)	Present Rated Capacity (1)	2004	2003	2002	2001	2000
			Years ended December 31 (Millions of Board Feet)				
B.C. Coast							
Hammond (2)	2	180	192	145	153	134	146
Acorn (3)	3	180	180	143	182	103	—
Field (3)	2	140	94	101	107	56	—
Western Whitewood (4)	1.5	110	82	33	71	73	83
MacKenzie (5)	2	60	47	42	47	37	34
B.C. Interior							
Adams Lake (6)	2	220	219	163	160	133	137
U.S. Pacific Northwest							
Gilchrist (7)	2	165	53	—	—	—	—
Marysville (7)	1	25	9	—	—	—	—
Port Angeles (7)	2	120	41	—	—	—	—
Sawmills Closed							
Fraser Mills (8)		—	—	—	—	58	143
Squamish (9)		—	—	17	63	72	89
Total		1200	917	644	783	666	632

(1) Based on the normal number of shifts per day and 250 operating days.
(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond management amounting to 26 million board feet in 2004.
(3) Acorn and Field were acquired as part of the acquisition of Primex Forest Products Ltd. on May 1, 2001.
(4) Western Whitewood is currently being rebuilt. On completion, the mill is expected to operate on a two-shift basis with an annual capacity of 180 million board feet.
(5) Volumes include custom-cutting. See "MacKenzie".
(6) Capacity based on 10 hour shifts.
(7) Gilchrist, Marysville and Port Angeles were acquired on September 1, 2004.
(8) The sawmill was permanently closed October 2001. The planer and dry kilns remain in operation. See "Remanufacturing".
(9) The sawmill was temporarily closed in April 2003 and permanently closed in October 2004.

B.C. Coast Operations

Hammond

Hammond is a western red cedar manufacturing facility located on the Fraser River at Maple Ridge, British Columbia. The facility consists of a three-line sawmill, dry kilns, and two planer mills. The mill had been completely rebuilt by the previous owner prior to its acquisition in 1991. During 1998 and 2001, five new dry kilns were constructed at a total cost of $8 million. In 2002, the Company completed a $5 million capital project that reduced costs and increased product value by optimizing trimming and improving the mill flow. In order to complement the mill's product lines, Hammond directs some of its log supply to third-party facilities for custom-cutting under the direction of Hammond's management. The Company directs the majority of Hammond's production to North American markets.

Acorn

The Acorn operation is located on leased land in Delta, British Columbia. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. The sawmill was completely rebuilt in 1989 and has undergone a number of capital improvements since that time. In 2001, capital projects totaling $13.5 million were completed upgrading the mill's log processing, lumber sorting and optimized trimming capability. Also in 2001, to better meet customer needs, the Company constructed, at a cost of $4.5 million, four dry kilns which utilize advanced vacuum-drying technology. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas fir logs.

Field

The Field operation is a sawmill located on Vancouver Island in Courtenay, British Columbia. In 2001, a $13.8 million capital program was completed to add a log processing facility and an automated lumber sorting system to the sawmill. In 2002, further capital and non-capital improvements resulted in a capacity increase of 30%. The mill uses hemlock and Douglas fir logs to produce structural lumber, primarily for the Japanese traditional housing market. Additional processing of lumber is performed at the Company's Saltair remanufacturing facility located in Chemainus, B.C. The sawmill was curtailed in November 2004 pending a revised business plan for its operation.

Western Whitewood

Western Whitewood is located on the north arm of the Fraser River in New Westminster, British Columbia. It is a high-capacity, small-log sawmill designed to manufacture lumber to offshore specifications. In 1994, construction was completed on dry kilns and reprocessing facilities enabling the Company to manufacture more kiln-dried value-added products. In 1996, a third kiln was added providing drying capacity for 60% of the mill's production. In November 2004, the Company began a $25 million rebuild of the mill including state-of-the-art optimization and breakdown equipment, new dry kilns and an upgrade of the planer facilities. The rebuild is scheduled to be completed in April 2005. The upgrade is expected to reduce operating costs, increase lumber recovery and increase production to 180 million board feet on a two-shift basis.

MacKenzie

Located on the south bank of the Fraser River in Surrey, British Columbia, the MacKenzie operation consists of a log yard and a single line headrig sawmill. The log yard merchandizes large high grade and appearance grade logs in hemlock, balsam, Douglas fir and Sitka spruce. Logs from the log yard are sorted for specified end uses and customers. Certain logs which are best suited for products which cannot be produced efficiently at MacKenzie are custom cut at third-party mills under the direction of MacKenzie's management. Logs surplus to current lumber programs are either sold to customers who custom cut the logs at MacKenzie or are sold through the local log market. The majority of lumber products produced at Mackenzie are targeted for further manufacturing into specialty end uses such as doors, windows, mouldings and architectural framing.

Interior Operations

Adams Lake

Adams Lake is Interfor's Interior sawmill and is located near Kamloops, B.C. Similar to the Interior mill operations of other companies, the mill manufactures kiln-dried lumber for the United States and Canadian construction markets as well as for offshore markets. Adams Lake Lumber has the capability to cut Douglas fir as well as spruce-pine-fir, western red cedar, and hemlock. In 2000, the Company completed a $4.5 million upgrade to improve the range of products that could be offered to its customers. The upgrade included the ability to produce machine stress rated products, increase the capacity and quality of kiln-drying and other projects which improved product optimization and reduced costs. In 2001, the Company completed a $2.7 million project to install an optimized edger. In 2003, a planer and sorter were installed at a cost of $6.8 million and an additional dry kiln was constructed at a cost of $1.0 million. Capital and non-capital improvements have resulted in a 60% increase in production since 2001.

U.S. Operations

Gilchrist

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. The previous owner invested approximately US$28 million in 2000 and 2001 to modernize the facility to efficiently convert small diameter logs. The mill primarily processes spruce-pine-fir and ponderosa pine to produce dimension lumber and a wide range of other products. The mill has an on-site cogeneration plant to power its dry kilns and produce electricity for its own use or for sale. The Company owns a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill.

Marysville

The Marysville mill is located in Marysville, Washington on approximately 10 acres. The mill converts large diameter hemlock logs using a single line headrig primarily for dimension lumber and rail ties, both of which are sold in the U.S. market.

Port Angeles

The Port Angeles mill was newly constructed in 1998 at a total cost of US$30 million. It is situated in Port Angeles, Washington on a 64 acre site near major highways and waterways for shipping lumber and chips and for receiving logs for the mill. The mill primarily processes hemlock and Douglas fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export.

REMANUFACTURING

Most of Interfor's sawmills have some capability to process lumber beyond the primary stage. In order to increase sales margins, Interfor has been adding value to its lumber products through increased remanufacturing activities at its own facilities described below, and by custom remanufacturing lumber in facilities owned by independent remanufacturers.

CEDARPRIME

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. CEDARPRIME Inc. assumed the business previously operated by the Company's McDonald Reman plant and began its own operations in January 2003. The plant has a moulding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 24 million board feet of finger-jointed and cut-stock products primarily for the U.S. market. Some of the products are sold under the brand name CEDARPRIME®.

Albion

The Albion facility operates on leased lands located 7 kilometres from Hammond, B.C. The plant processes high value finished cedar siding and decking products. The facility includes a moulder, a resaw, five chop-saws and sorting equipment which enable the plant to process 12 million board feet of kiln-dried products per year.

Fraser Reman

The Fraser Mills sawmill, located on the north bank of the Fraser River at Coquitlam, B.C., was permanently closed in October 2001. In 2001, the Fraser Reman operation was established on the Fraser Mills site and the construction of five new steam kilns was completed at a cost of $4.9 million. These kilns, together with the existing kilns and the planermill, continue to operate and process lumber for Interfor's other primary mills as well as for external customers on a contract processing basis.

Saltair

Saltair Timber Products Ltd. is located on Vancouver Island in Chemainus, British Columbia. Its facilities include dry kilns and other processing equipment for adding value to the lumber produced at Field. The plant has an annual capacity of 40 million board feet of kiln-dried lumber. In 2002, improvements in the operations of the dry kilns enabled the plant to double its kiln throughput. In November 2004, the plant's operations were reduced to approximately 50% of capacity, providing custom processing for third-party sawmills while Field's operations are curtailed.

SALES, MARKETING AND COMPETITIVE POSITION

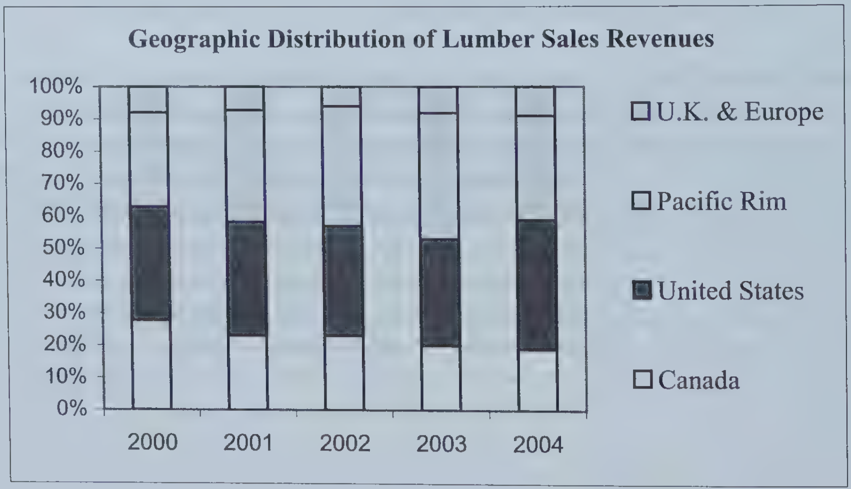
Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodeling market in North America has become a significant consumer of lumber and has lessened the impact of fluctuations in new housing starts. In order to further lessen the impact of rapid cyclical changes in any one market, Interfor maintains the policy of worldwide market and product diversification. Each of the mills has a particular customer and product base in various countries, providing Interfor with a diversified sales profile. Product and market diversification is particularly important for B.C. Coast producers where the variability inherent in the log resource produces a much wider spectrum of product quality than is available in the B.C. Interior or U.S. Pacific Northwest. A continuing priority for Interfor is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items, particularly in its coastal operations where the timber supply is characterized by large, high quality logs in a variety of species which yield a higher percentage of clear and appearance grade lumber than that which is normally found in interior operations. In 2004, Interfor opened an office in China to market lumber and to arrange custom processing of some of the Company's low-grade lumber into higher grade products for sale in China and Japan.

Lumber Sales and Marketing activities are combined into Western Red Cedar, North American Dimension Lumber and Coastal Whitewood Groups. Interfor's Tokyo-based subsidiary, Interfor Japan Ltd., has developed niche markets and has increased sales directly to end users. While the major market for Interfor's cedar lumber continues to be North America, gains have been made in diversifying into offshore markets in Europe, Japan, Asia and Australia.

The following table shows Interfor's lumber sales by geographic area and total sales by product line for the past five years:

	Years ended December 31				
	2004	2003	2002	2001	2000
	(thousands of dollars)				
Lumber					
— Canada	$106,537	$ 82,305	$128,159	$113,209	$137,800
— U.S.A	263,313	172,971	218,987	186,402	177,817
— Other export	234,909	203,790	242,830	207,398	186,276
	604,759	459,066	589,976	507,009	501,893
Offshore transportation and handling	29,106	27,338	31,453	20,078	20,524
Logs	126,564	90,822	137,602	135,836	168,532
Wood chips and other by-products	38,351	28,499	31,041	30,160	39,363
Contract services and other	34,700	33,882	24,734	25,954	20,033
Total sales	$833,480	$639,607	$814,806	$719,037	$750,345

The following graph shows the percentage of Interfor's lumber sales revenue to its major markets in the past five years.



Wood Chip and Sawmill Residuals Sales

In B.C., Interfor has the capacity to produce approximately 550,000 volumetric units of wood chips per year in its sawmill operations. In 2004, operating the sawmills below capacity reduced chip shipments to approximately 483,000 volumetric units for the year. Essentially all of the wood chips produced in B.C. are sold under contracts to pulp producers with terms varying from 1 to 25 years, with some contracts perpetually renewable by the pulp producer. Most of these wood chips are sold at prices related to current Northern Bleached Softwood Kraft (NBSK) pulp prices, while the balance is sold at current prices.

In Washington and Oregon, Interfor has the capacity to produce approximately 110,000 bone dry units of chips in its sawmill operations. In the four months of operations in 2004, approximately 37,000 bone dry units were produced. Chips from these operations are sold to pulp producers or fibre board manufacturers under short-term arrangements.

DISTRIBUTION

Interfor uses various modes of surface transportation to deliver its lumber products. Interfor has a 60% interest in Seaboard Shipping Company Limited ("Seaboard") and arranges substantially all of the Company's offshore transportation through them. Seaboard also has a 50% interest in Western Stevedoring Co. Ltd., which provides terminal and stevedoring services to Seaboard and its shippers. Shipments of lumber within North America are made by truck and rail. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, the Company owns a short line railroad to connect to a mainline for shipping lumber and chips.

TIMBER SUPPLY

British Columbia

The Province of British Columbia owns 95% of the timberlands from which the majority of timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest land owners.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for management obligations and a fee payable to the Crown (referred to as stumpage).

Interfor's timber supply needs are met by a combination of: internal logs harvested from its own timber tenures; long-term trade and supply agreements; and by purchases on the open market. When operating at normal capacity, Interfor's coastal mills obtain approximately one-half of their log supply from external sources. Interfor's interior mill requires approximately two-thirds of its log supply from external sources.

Interfor holds various Forest Licence, Tree Farm Licence and Timber Licence tenures that currently provide for an allowable annual cut (AAC) of approximately of 2.65 million cubic meters (m3). The majority of Interfor's tenures are long-term renewable agreements that are generally replaced every five years.

Interfor's AAC has been reduced by 20% (579,000 m3) as a result of the B.C. Government's Forest Revitalization Act introduced in 2003. The Act requires all major tenure holders, such as Interfor, to give back 20% of their harvesting rights to the Government. The transfer of Interfor's cutting rights has partially been completed, with 344,000 m3 taken back in December 2004 and the remainder of 235,000 m3 to be taken back by December 2005. The AAC taken back by Government is being reallocated to the B.C. Timber Sales Program, First Nations and community forests, and then potentially becomes available for purchase on the open market.

On the Coast, Interfor harvests a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the Interior, the species mix consists of spruce, pine, fir (SPF), Douglas-fir and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-quarter of the harvest currently comes from second growth stands, this amount will increase over the next several decades.

The following tables show Interfor's AAC under its Forest and Tree Farm Licences and other cutting rights and the volume of timber harvested under Interfor's Forest and Timber Licences and other cutting rights in each region for the periods specified. They also show the volume of purchases, sales, and consumption during that period.

	Years ended December 31					
British Columbian Operations	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
	(thousands of cubic metres)					
Allowable Annual Cut (1)						
— Forest Licences	2,293	2,603	2,603	2,782	2,782	2,811
— Tree Farm Licences	517	551	551	563	666	666
— Discretionary Annual Harvest Levels (2)	80	80	80	80	187	180
— Less Provision for Harvest Take-back (3)	(235)	(579)	—	—	—	—
	2,655	**2,655**	**3,234**	**3,425**	**3,635**	**3,657**
Actual Cut						
Coast						
— Forest Licences		2,042	1,373	2,179	1,996	2,404
— Tree Farm Licences		493	195	444	474	538
— Timber Licences & other cutting rights (2)		162	75	15	34	192
		2,697	1,643	2,638	2,504	3,134
Interior						
— Forest Licence		267	279	266	229	252
— Timber Licences (2)		—	—	7	27	21
		267	279	273	256	273
Total Actual Cut		2,964	1,922	2,911	2,760	3,407
Purchases		1,880	1,557	2,035	1,893	1,093
		4,844	**3,479**	**4,946**	**4,653**	**4,500**
Log Utilization						
— Consumption		3,306	2,824	3,400	2,919	2,729
— Logs Chipped		—	6	5	17	20
— Sales		1,497	1,125	1,375	1,581	1,803
Total		**4,803**	**3,955**	**4,780**	**4,517**	**4,552**

(1) AAC includes a provision for non-recoverable fibre.
(2) Volumes not included in Annual Allowable Cut.
(3) AAC take-back under the Forestry Revitalization Plan is expected to be completed during 2005.

U.S. Pacific Northwest

Timber supply in the U.S. Pacific Northwest (PNW) is derived from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. About 80% of the log supply in the PNW comes from land owned by forest companies and small private landowners.

Interfor Pacific's timber supply needs in Washington are primarily met by purchases from local forest industry private lands as well as small, individual private land owners. In Oregon, the mill is supplied by a combination of Federal and State land timber sales and forest industry private land purchases.

In Washington, the Company's log purchases are primarily western hemlock and some Douglas-fir that come from an ample supply of local second growth forests.

In Oregon, log purchases consist primarily of lodgepole and ponderosa pine that have come from second growth harvesting and the thinning of young stands from surrounding National Forests.

The total log supply requirement for Interfor Pacific's mills is projected to be 155 million board feet in 2005. The proportion of timber derived from various sources is estimated to be as follows:

U.S. Pacific Northwest Operations	Expected Sources of Timber 2005
Washington Source of Fibre	
State and Federal	45%
Industrial	43
Private	12
Total	100%

Forestry and Logging in B.C.

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's Forest and Range Practices Act and the Forest Act. The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

Interfor is required to manage forest resources under its tenure in accordance with the requirements of Government laws and regulations. Forest management of the Company's tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

Interfor pays stumpage to the Province for timber harvested on Crown land according to pricing systems in place on the Coast and the Interior. In 2004, the Company paid $34.4 million in stumpage to the Province for the harvest of 2.96 million m3 of Crown timber.

Interfor's woodlands operations consist of both Company logging crews and independent logging contractors. The Company and its logging contractors employ approximately 1500 people. Coastal logging operations are widely dispersed in primarily remote locations between Vancouver to Prince Rupert. The Company's Central Interior woodlands operation is located at Adams Lake, northeast of Kamloops.

The Company also operates a helicopter logging business (Helifor) which, on average, accounts for approximately 30% of Interfor's total log harvest. In addition, Helifor provides contract heavy lift and fire fighting services, as well as contract logging services to other forest companies.

Log Sales

Interfor is involved in log purchases and sales to obtain the appropriate size, grade, and species of log to suit market conditions and each mill's cutting preferences. The Company buys or trades logs through agreements and open market sales. The Company sells logs that are either unsuitable for cutting or in excess of its manufacturing requirements.

CAPITAL EXPENDITURES

The Company made acquisitions and capital expenditures on sawmill and logging operations and timber holdings as shown in the following table:

	Years ended December 31,				
	2004	2003	2002	2001	2000
	(thousands of dollars)				
Acquisitions					
Land, buildings, equipment					
— Manufacturing	$74,979	—	—	$85,909	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	—	—
	$74,979	—	—	$85,909	—
Other capital expenditures					
Land, buildings, equipment					
— Manufacturing and other	26,615	$21,940	$14,801	$21,386	$15,041
— Forestry and logging	2,075	1,335	2,266	13	7,338
Logging roads and timber	28,940	16,625	24,028	19,866	30,253
	57,630	39,900	41,095	41,265	52,632
Total	**$132,609**	**$39,900**	**$41,095**	**$127,174**	**$52,632**

The capital expenditures of the Company during the five years ended December 31, 2004 were financed through internally generated funds, through the Company's bank lines and through share issues in 2001.

HUMAN RESOURCES

In B.C., Interfor employs approximately 2,650 people including approximately 1,000 people through logging contractors operating under its direction. The United Steel Workers of America ("Steel Workers") is the certified bargaining agent for approximately 1,700 people, including employees of contractors, engaged in Interfor's logging and manufacturing operations in the coastal region. The labour agreement with the Steel Workers was renewed during the year and expires on June 14, 2007. There were no shifts lost due to labour disputes in Interfor's sawmill or logging operations in 2004.

In the U.S., Interfor employs approximately 350 employees in its sawmill and remanufacturing operations in Washington and Oregon and in its office located in Bellingham, Washington.

Interfor's employees are governed by a Code of Conduct, an Environment Policy and a Safety Policy. The Code of Conduct may be found on SEDAR at www.sedar.com. The Environment and Safety Policies are described below under the next two headings. Employees are protected under policies such as a Privacy Policy and a Harassment Policy. The employees, management and directors of Interfor have adopted the following Core Values:

Core Values

We will conduct ourselves with honesty, integrity and professionalism.

- **People:** People are the foundation of our business.
- **Safety:** Safety is a prerequisite for work.
- **Environment:** Environmental integrity must be maintained in everything we do.
- **Customers:** Customers pay our way.
- **Shareholders:** Returns to our shareholders facilitate investment, employment, and public benefits.

We Are Responsible For Our Own Success.

THE ENVIRONMENT

Interfor maintains an Environmental Policy that demonstrates the Company's commitment to responsible stewardship of the environment.

The Company's Board of Directors approved the policy and established a committee of the Board to monitor its commitment to principles, values and policies on environment matters.

Management has implemented an environmental compliance program and to ensure there are regular, documented reports to verify effectiveness, Interfor ensures that external and / or internal audits are performed regularly in both the woodlands and manufacturing operations of the Company.

All of Interfor's woodlands operations have been independently certified to internationally recognized standards. Certification systems provide independent verification that environment and sustainable forestry standards are being met.

The Company's woodlands operations have been independently audited by a third-party (KPMG Performance Registrar Inc.) and found to meet the ISO 14001 standard for environmental management systems.

Interfor's woodlands have also been certified to the Sustainable Forestry Initiative® Program (SFI) as an international standard for certification of forest land. The SFI program is a comprehensive system of principles, objectives and performance measures that combine the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality.

Interfor maintains an Environmental Management System (EMS) for all of its manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Each manufacturing business unit is responsible for compliance and ensuring the EMS is functioning as intended.

The Company monitors environmental performance at its mill sites and conducts audits to identify issues and assess compliance. All of Interfor's mills have received a high rating for environmental compliance.

Interfor has also received Chain-of-Custody (CoC) certification that tracks certified logs coming from sustainable forests through the manufacturing process. All of Interfor's Canadian mills were approved for SFI "on product" label use. In addition, these mills also have obtained both Forest Stewardship Council and generic CoC certifications.

Interfor is a global leader in environmental management through the application of science-based principles, collaborative approaches, sustainable forest practices and independent certifications. The Company was a recipient of the 2000 Millennium Business Award from the United Nations Environmental Programme and the International Chamber of Commerce.

The Company helps to communicate its environmental values to its employees, customers, and shareholders by branding its products as Certified Sustainable®. Additional information about the Company's environmental work, audit summaries and Forest Sustainability Report is available on the Company's website at www.interfor.com.

Environment Policy

International Forest Products Limited is committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

HEALTH AND SAFETY

Interfor maintains a Health and Safety Policy that demonstrates the Company's commitment to the health, safety and well-being of all employees.

The Company's Board of Directors approved the policy and established a committee of the Board to monitor these safety commitments. The Environment and Safety Committee of the Board is mandated to monitor the implementation and maintenance of the Company's policy of ongoing commitment to health and safety values and principles with continuous operational improvement. The Committee ensures that Company management develops, implements and maintains a comprehensive safety program.

Safety is a core value for Interfor. The Company maintains an active and comprehensive safety program at each of its operations. In addition, in 2003 the Company formed safety task groups in both woodlands and manufacturing to further increase the emphasis on safety and reduce the risk of serious incidents. The Company continues to be a top safety performer in the B.C. woodlands and sawmill manufacturing sectors, as reported by the Forest Industry Advisory Service (FIAS).

The Coastal Woodlands Safety Task Group provides direction and substance for improving performance. It develops the understanding of, and the commitment to, safety values and beliefs. A key area of its focus continues to be the training of employees and supervisors along with contractors and their employees.

The Manufacturing Safety Task Group brings together leaders from each manufacturing division to develop procedures that will reduce the risk of serious incidents and improve safety performance. Important activities in 2004 included the establishment of Company-wide standards in high-risk areas.

The Interfor Pacific sawmill group includes sawmills in Port Angeles and Marysville, Washington, and in Gilchrist, Oregon. Each mill has a comprehensive safety program.

Health And Safety Policy

Health and Safety is the uncompromised right and responsibility of all employees.

- We will monitor and report regularly on our Health and Safety performance.
- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations.

International Forest Products Limited is committed to the health, safety, and well being of all employees.

RESEARCH AND DEVELOPMENT

The Company contributes to and participates in industry research organizations that have made numerous technical developments beneficial to the Company in areas such as sawing technology, drying techniques, and anti-sapstain applications. Interfor also is committed to applied research and development in the areas of health and safety, forest management and product and market development. Interfor also conducts product and market research on its own in Canada and the U.S., and has recently engaged in trials to produce several engineered wood products in Asia.

RISK FACTORS

Certain information contained in this Annual Information Form is forward looking in nature and reflect management's current view of future events. Other information is historical but may result in expectations for future outcomes or circumstances. Interfor's operations and operating results are affected by various external and internal factors such as changes in product pricing, currency exchange rates, interest rates, forest policy and the U.S. softwood lumber action. These and other risk factors are described in the Management Discussion and Analysis for the year ended December 31, 2004, a copy of which is available on SEDAR at www.sedar.com.

SHARE CAPITAL

The authorized share capital of the Company consists of 100,000,000 class "A" Subordinate Voting shares without par value ("Subordinate Voting Shares"), 1,700,000 class "B" Multiple Voting shares without par value ("Multiple Voting Shares") and 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof. The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Subordinate Voting Shares and Multiple Voting Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board of Directors and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board of Directors except in certain circumstances where the holders of Preference shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference shares.

Multiple Voting Shares

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board of Directors except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two directors to be elected by the holders of Preference shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

Rights on Take-Over Bids and Conversion of Multiple Voting Shares

Any transfer of a Multiple Voting Share:

(a) by any of W.L. Sauder, members of his immediate family, their descendants and holding companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Convertible Preference Shares, and Multiple Voting Shares at an equivalent price; or

(b) by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the share into a Subordinate Voting Share.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

(a) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or

(b) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own Equity Shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding Equity Shares, or (ii) the issue of Equity Shares by way of a stock dividend other than an ordinary course stock dividend.

Preference Shares

The Preference shares of each series rank on a parity with the Preference shares of every other series, and are entitled to preference over the Subordinate Voting Shares and the Multiple Voting Shares and over any other shares ranking junior to the Preference shares, with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

TRANSFER AGENT

The Company's transfer agent is Computershare Trust Company of Canada at their Vancouver and Toronto locations.

DIVIDENDS

Under its credit facilities, the Company may pay cash dividends and certain other payments provided that it meets its banking covenants. However, the Company currently has no plans to pay dividends while it pursues high pay-back capital projects.

STOCK EXCHANGE LISTING AND TRADING SUMMARY

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.SV.A.

The trading volumes and price ranges for each month of 2004 and the first two months of 2005 are as follows:

	Highest Share Price	Lowest Share Price	Volume Traded
January 2004	6.29	5.44	2,069,460
February 2004	6.80	5.67	2,911,661
March 2004	7.10	6.35	2,173,689
April 2004	7.25	6.60	1,411,988
May 2004	7.10	6.50	1,238,801
June 2004	7.19	6.70	1.155.176
July 2004	7.89	6.50	3,789,241
August 2004	7.75	6.80	4,045,976
September 2004	8.30	7.51	3,770,099
October 2004	8.65	7.50	3,183,142
November 2004	8.10	6.21	2,986,840
December 2004	7.09	6.40	1,929,457
January 2005	7.48	6.71	3,685,936
February 2005	7.81	7.00	1,511,838

MATERIAL CONTRACTS

The Asset Purchase Agreement for the acquisition of three mills from Crown Pacific Limited Partners Limited was filed on SEDAR on September 10, 2004. It can be obtained from SEDAR at www.sedar.com .

DIRECTORS AND EXECUTIVE OFFICERS

As of March 7, 2005, the executive officers and directors of the Company (19 persons) beneficially owned or exercised control over 2.8% of the Subordinate Voting Shares and 99.6% of the Multiple Voting Shares.

The term of office for each director expires on the date of the next annual general meeting on April 28, 2005.

Directors	Principal Occupations in the Past Five Years	Director Since	Municipality of Residence
LAWRENCE I. BELL (a)(b)(c)	Chairman and previously Chairman & C.E.O. of B.C. Hydro and Power Authority (Electricity generation and distribution); previously President and Chief Executive Officer of Shato Holding Ltd. (Food processing and services; real estate management and development)	Apr. 29, 1998	West Vancouver, B.C., Canada
DUNCAN K. DAVIES (e)	President and Chief Executive Officer of the Company	Nov. 24, 1998	Vancouver, B.C., Canada
ROBERT E. KADLEC (b)(d)	Chairman & C.E.O. of Bentley Capital Corp. (Venture capital)	Oct. 18, 1994	West Vancouver, B.C., Canada.
HAROLD C. KALKE (a)(b)(c)	President of Kalico Developments Ltd. (Real estate development and management)	July 18, 2000	West Vancouver, B.C., Canada

Directors	Principal Occupations in the Past Five Years	Director Since	Municipality of Residence
CLAUDE C. LAVAL, III (a)(d)	Chairman and previously President of Claude Laval Corporation (Manufacturer of filtration equipment)	Apr. 28, 1994	Fresno, Calif., U.S.A.
RICHARD N. MCKERRACHER	President and previously Senior Vice President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 29, 1998	North Vancouver, B.C., Canada
JOHN A. MILROY (a)(b)(d)	Business Consultant	Mar. 23, 1978	Vancouver, B.C., Canada
E. LAWRENCE SAUDER (c)(e)	Chairman of the Board of Hardwoods Distribution Income Fund; and Vice Chairman and previously President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 18, 1984	Vancouver, B.C., Canada
WILLIAM L. SAUDER (c)(e)	Chairman of the Company	Jul. 27, 1977	Vancouver, B.C., Canada
JOSEPH SEGAL (c)	President of Kingswood Capital Corporation (Venture capital)	Feb. 2, 1987	Vancouver, B.C., Canada
JOHN P. SULLIVAN (d)	Retired; previously Vice President of the Company; previously Vice President Corporate Development of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C., Canada

(a) Member of the Audit Committee
(b) Member of the Corporate Governance Committee
(c) Member of the Management Resources and Compensation Committee
(d) Member of the Environment and Safety Committee
(e) Member of the Executive Committee

Executive Officers	Principal Occupations in the Past Five Years	Municipality of Residence
WILLIAM L. SAUDER	Chairman of the Company	Vancouver, B.C., Canada
DUNCAN K. DAVIES	President and Chief Executive Officer of the Company	Vancouver, B.C., Canada
JOHN A. HORNING	Senior Vice President and Chief Financial Officer; previously Vice President Finance and Corporate Development; Vice President of the Company	West Vancouver, B.C., Canada
SANDY M. FULTON	Senior Vice President, U.S. Operations; previously Management Consultant to the forest and financial services industries; Executive Vice President Operations of Crown Pacific Limited Partnership (Forest Products)	Blaine, Washington, U.S.A.
JAMES A. BELSHEIM	Vice President, Corporate Development; previously Vice President, Structural Whitewood; Vice President, Interior Operations	West Vancouver, B.C., Canada

Executive Officers	Principal Occupations in the Past Five Years	Municipality of Residence
JACK E. DRAPER	Vice President, Cedar	Surrey, B.C., Canada
GERALD J. FRIESEN	Vice President and Corporate Secretary	Coquitlam, B.C., Canada
J. DESMOND GELZ	Vice President, Business Development; previously a Partner, Perforex Inc. (Forest products consulting)	Bellingham, Washington, U.S.A.
OTTO F. SCHULTE	Vice President, Coastal Woodlands; previously General Manager, Campbell River Operations of the Company	Black Creek, B.C., Canada
RICHARD J. SLACO	Vice President and Chief Forester; previously Chief Forester of the Company	Delta, B.C., Canada

AUDIT COMMITTEE

Composition of the Audit Committee

The Audit Committee consists of four members, all of whom meet the requirements of *Multilateral Instrument 52-110* regarding financial literacy and have been determined by the Board to be independent.

Mr. John Milroy is the Chairman of the Committee. He is a Chartered Accountant with experience as a business consultant and investment advisor. He has also been the Chief Executive Officer of a manufacturer of sawmill equipment and Vice President of Finance or Chief Financial Officer of two public companies.

Mr. Lawrence Bell is the Chairman of B.C. Hydro and the Richmond Airport Vancouver Rapid Transit Project. He is currently a director of nine other companies or trusts. He has a Master of Arts Degree from San Jose State College and has been a Deputy Minister in the B.C. Government in four portfolios including Finance and has been the Chairman and President or Chief Executive Officer of three large companies. He has also been a director of numerous other public companies and foundations.

Mr. Claude Laval III is the Chairman and founder of the Claude Laval Corp., a worldwide manufacturer of liquid and solid filtration equipment and systems. He has a degree in Public Administration from Stanford University and he has been the Chief Executive Officer of two publicly traded U.S. companies.

Mr. Harold Kalke is a businessman with extensive experience in real estate development and in the oil and gas sector. He is currently the President of Kalico Developments Ltd, a real estate development and management company. He has a Bachelor of Science degree in engineering and a Masters in Business Administration from the University of Western Ontario.

Audit Committee Terms of Reference

Purpose

The Audit Committee (the "Committee") under powers delegated to it by the Board of Directors (the "Board") is mandated to review annual and quarterly financial statements and certain other legally required financial documents before they are approved by the Board, meet with shareholders' auditors independently of Management, review the nature and scope of the annual audit, and review the adequacy of internal accounting control procedures and systems.

Composition and Term Of Office

The Committee shall consist of four or more directors, all of whom shall be unrelated to the Company. All members should be financially literate and at least one member should have accounting or related expertise. The Chairman of the Committee along with other members shall be appointed annually at the first meeting of the Board following the Annual General Meeting to hold office until the next Annual General Meeting. A casual vacancy may be filled or any additional member may be appointed at any time by the Board to hold office until the next Annual General Meeting. A quorum shall consist of a simple majority of the members of the Committee.

Duties and Responsibilities

Except as specifically authorized by the Board, the Committee shall perform the following functions:

1. Schedule regular meetings. Extraordinary meetings may be called by any member of the Committee or at the request of the Chairman of the Board.
2. Appoint a Secretary to the Committee who shall record the proceedings of the meetings.
3. Report to the Board the activity and recommendations, if any, requiring Board approval.
4. Examine and review the annual and quarterly financial statements and/or any Prospectus of the Company and recommend approval by the Board. This review will involve discussions with the Company's Auditor including an opportunity for an in-camera meeting.
5. Review the annual and quarterly MD&A report to the shareholders and recommend approval by the Board.
6. Review matters related to internal controls of the Company. Ensure that the necessary measures are taken to follow up suggestions resulting from auditors' reports.
7. Review the principal financial risks of the Company and ensure that an effective strategy to manage these risks is in place.
8. Review the derivatives policies and activities including details of exposures to banks and other counterparties.
9. Recommend the appointment of the Company's Auditor and negotiate the terms of reference and compensation for the audit.
10. Approve all non-financial audit services provided to the Company by the Company's Auditor.
11. Oversee the activities of the Auditor who reports directly to the Committee.
12. Review procedures used by management to ensure the integrity of all public disclosures.
13. Review procedures for handling concerns expressed about the Company's accounting, internal controls and audit procedures including concerns expressed confidentially by employees.

Provision of Services by the Company's External Auditor

The Audit Committee recommends the appointment of the External Auditor and approves the annual audit plan and compensation of the External Auditor for all audit, audit related and non-audit services. In the case of non-audit services, the service and compensation is approved by the Committee before the service commences.

The following summarizes the professional services rendered by KPMG to the Company for the years ended December 31, 2004 and 2003:

	2004 Fees	2003 Fees
Audit and audit-related fees:		
Audit of the consolidated financial statements	$ 301,500	$ 242,000
Quarterly reviews	55,500	55,500
Audit-related fees (1)	225,625	158,500
Total Audit and audit-related fees	582,625	456,000
Tax fees (2)	159,239	25,000
All other fees - forestry certification audits	126,900	163,000
Total fees:	$ 868,764	$ 644,000

(1) Audit-related fees for the current year consist principally of fees for professional services rendered with respect to the draft circular related to the Company's bid for the acquisition of Riverside Forest Products Limited, the audit of the assets acquired from Crown Pacific and related Business Acquisition Report requirements, audits of a defined pension plan, investee companies and the Company's accounts receivable securitization agreement, and advice and assistance related to accounting issues.

(2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border issues with respect to the acquisition and structuring of the assets acquired from Crown Pacific, cross border transfer pricing, and tax work related to operating in China.

INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants, are the auditor who prepared the auditors' report that accompanies the Company's financial statements for the year ended December 31, 2004. To the Company's knowledge, as of March 21, 2005, none of the partners of KPMG LLP beneficially owns, directly or indirectly, any of the outstanding shares of the Company.

ADDITIONAL INFORMATION

Additional information relating to Interfor may be found on SEDAR at www.sedar.com including the following:

a. Additional financial information is provided in the Company's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004.

b. Additional information including corporate governance practices, directors' and officers' remuneration, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's Information Circular dated as of March 7, 2005.

GLOSSARY

"Allowable Annual cut (AAC)" The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

"Bone Dry Unit (BDU)" A unit of measurement for wood chips and other sawmill by-products, being equal to 2,400 pounds.

"**Cash flow from operations**" Cash generated from operations before considering changes in operating working capital.

"**Clear fibre**" Refers to knot and defect-free fibre found in higher-grade sawlogs; in lumber from, this fibre commands a premium price.

"**Custom cutting**" An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

"**EBITDA**" Earnings before interest, income taxes, depletion, amortization, restructuring costs and write-downs of plant and equipment.

"EBITDA from continuing operations" EBITDA less other income.

"**Forest Licence**" Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

"**Hectare**" A metric unit of area measurement, equal to 2.47 acres.

"**m³**" A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

"**Mfbm**" One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

"Pre-tax return on total assets" Earnings (loss) before taxes divided by closing total assets.

"**Return on average invested capital**" Net earnings (loss) plus after tax interest cost divided by the average of opening and closing invested capital (bank indebtedness plus long-tern debt plus shareholders' equity).

"**Return on average shareholders' equity**" Net earnings (loss) divided by the average of opening and closing shareholders' equity.

"**Silviculture**" The art and science of controlling the establishment, growth, composition, health and quality of forests.

"**Stumpage**" A charge assessed by the provincial government on all Crown timber harvested.

"**Sustained yield (sustainable log supply)"** The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

"**Timber Licence**" Non-replaceable, area based, Crown timber cutting rights.

"**Tree Farm Licence**" A renewable 25-year licence to manage forest area to yield an annual harvest on a sustainable basis.

"**Value-added product**" A commodity or other product that has been further processed to increase financial value.

"**Volumetric unit**" A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet. A volumetric unit represents between 60% and 85% of the chips in a Bone Dry Unit, depending on the species.

"**Whitewood**" Includes the Coastal species Hemlock, Balsam Fir, Douglas Fir and Spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

HEAD OFFICE AND REGISTERED OFFICE

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Chairman

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President and Chief Executive Officer

J.A. Horning
Senior Vice President and Chief Financial Officer

S. M. Fulton
Senior Vice President, U.S. Operations

J.A. Belsheim
Vice President, Corporate Development

J.E. Draper
Vice President, Cedar

J. D. Gelz
Vice President Business Development

O.F. Schulte
Vice President, Coastal Woodlands

R.J. Slaco
Vice President and Chief Forester

G.J. Friesen
Vice President and Corporate Secretary

L.D. Cocke
Corporate Controller

S.D. Williams
Corporate Treasurer

AUDITORS

KPMG LLP Vancouver, BC

TRANSFER AGENT

Computer Share Trust Company of Canada
Vancouver, BC and Toronto, ON

STOCK EXCHANGE

Class "A" shares listed on
The Toronto Stock Exchange as IFP.SV.A

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Vancouver, BC

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